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OVERSIGHT ON THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM IN THE CITY OF PHILADELPHIA

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

THE PART OF THE FEDERAL GOVERNMENT AND THE CITY OF PHILADELPHIA TO ADDRESS AND CORRECT CRITICAL PROBLEMS WITH RESPECT TO THE ADMINISTRATION OF THE CITY'S CDBG PROGRAM. EVIDENCE ASSEMBLED BY HUD POINTED OUT AN OVERALL BREAKDOWN IN CITY OVERSIGHT OF ITS BLOCK GRANT PROGRAM AND THE CONTINUING WASTE OF HUNDREDS OF THOUSANDS, PERHAPS MILLIONS OF DOLLARS OF THE TAXPAYERS' MONEY

OCTOBER 2, 1986

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OVERSIGHT ON THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM IN THE CITY OF PHILADELPHIA

THURSDAY, OCTOBER 2, 1986

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Subcommittee on Housing and Urban Affairs,
Washington, DC.

The subcommittee met at 9:35 a.m., in room SD–538, Dirksen Senate Office Building, Senator John Heinz presiding.

Present: Senators Heinz, D'Amato, and Dixon.

OPENING STATEMENT OF SENATOR HEINZ

Senator Heinz. Ladies and gentlemen, the committee will come to order.

Let me explain the situation we're in so people aren't confused when we are hopefully interrupted. The committee had scheduled a markup for 9 a.m. to report three nominations, Messrs. Demery, Fireman, and Hummel for various Federal appointments.

At this point we are one or two Senators short of a quorum and when we have the requisite number of Senators we will temporarily interrupt the hearing scheduled for 9:30 a.m. with which we will proceed in just a second so that we may report what are noncontroversial nominations.

Therefore, we will proceed to the hearing that has been scheduled, an oversight of the Community Development Block Grant Program in Philadelphia.

This oversight hearing grows out of a number of concerns that have surfaced over the last several months. Joining the committee today is Senator Arlen Specter, my colleague, who's taken a very great interest in this matter, and I will be yielding to him in due course for any comments he cares to make.

But this hearing, which is under the auspices of the Housing Subcommittee on which I serve which is so ably chaired by the distinguished Senator from Nevada, Senator Hecht, who has turned over to me the responsibilities for chairing this hearing, is part of a larger effort on the part of the Federal Government and the city of Philadelphia to address and correct critical problems with respect to the administration of Philadelphia's Community Development Block Grant [CDBG] Program.

At stake is $52 million in annual Federal grants to the city that support a variety of housing, economic development and service programs on behalf of the city's elderly, poor and jobless, and of course the neighborhoods in which they live.

I want to emphasize that, for my part, my chief concern and the concern of everyone involved that I know of is to ensure that the delivery of services is not interrupted and that well-run subrecipient programs, of which there are many, are not penalized.

The evidence assembled by the Federal Department of Housing and Urban Development pointed out an overall breakdown in city oversight of its Block Grant Program and the continuing waste of hundreds of thousands, perhaps millions of dollars, of taxpayers' money.

As an emergency response, HUD resorted to the freeze in order to force the city into a top to bottom evaluation of current program activities.

In addition, HUD recently advised the city that up to $13 million the city's fiscal 1987 block grant will be withheld until the city acts on a comprehensive management reorganization prescribed by HUD. HUD also laid out a fixed timetable for city action and should the city fail to perform, it is my understanding that the $13 million withheld could be permanently subtracted. That would be about a 25-percent reduction in HUD CDBG moneys to the city.

As it became apparent that serious problems existed and that the city and HUD were verging on an empasse that threatened to paralyze the city's programs, Senator Specter and I ordered the General Accounting Office—the investigatory arm of Congress—to commence a thorough investigation of the situation, past, present, and future.

This investigation will consist in major part of intensive monitoring of the city's compliance with HUD's contract conditions. The GAO will be reporting monthly on this progress.

It is my hope that this morning's testimony will provide some insight into the nature and extent of the problems that exist, how they came about, and most important, how we can solve them. These are questions that must be answered in order to protect the taxpayer and to protect those who depend on the Block Grant Program for housing, jobs, and vital services.

The people who depend on those programs and services are the ones who stand to lose, the people who are most vulnerable when management and oversight break down.

On August 20, I visited the Lutheran Settlement House, a senior citizens' center, in the Frankfort section of Philadelphia. This center serves more than 6,000 elderly residents from that neighborhood each year, and received about $500,000 in block grant funds. These moneys were used to make badly needed physical improvements to the center.

Because the CDBG moneys were available when they were needed, some structural problems were shored up. Stairways and floors were replaced. Classrooms were added. Safer entrance to the building was built. In short, a variety of very much needed and very important improvements were made.

Had CDBG moneys not been available because of moneys wasted by the city or because of a HUD embargo on spending, whatever the reason, the future of the Lutheran Settlement House and of the

6,000-plus citizens who depend on it for the services I mentioned would have been in grave jeopardy.

The well-publicized revelations regarding the use of CDBG funds by the inner-city organizing network is just one aspect, a symptom of the issue that we want to deal with this morning.

It is the apparent systemic problems in the city's administration of the CDBG Program that is of interest to the subcommittee. If there are legislative changes that need to be made, we hope to generate the basis in the testimony for making them today.

If there are administrative remedies, in addition to the ones already mandated by HUD, we hope they will be forthcoming too.

What we do know is that there is a cloud over the entire situation. In our efforts to recruit witnesses for this hearing, the first dozen people that we approached refused to testify for fear of retribution, for fear that their Community Development Block Grant funding would be terminated.

Now whether real or imagined, these fears exist. I hope that some of these individuals will come forward in future hearings that I plan to hold both here and in Philadelphia. I might also add that witnesses' fear of retribution isn't new—the same situation existed last year when Senator Specter and I held a Finance Committee hearing to investigate the problems of the Internal Revenue Service Center in Philadelphia. Initially, witnesses were extraordinarily reluctant to testify about IRS abuses for fear of retribution. Nevertheless, eventually most came forward and those that did come forward contributed immensely to the complete turnaround we were able to achieve at the Internal Revenue Service both in the Philadelphia region and nationally.

We have assembled an excellent panel of witnesses this morning. I am looking forward to hearing from all of you from HUD, from the city, from our community groups, and I would like to particularly thank all of you for agreeing to participate on such short notice.

Again, I want to thank Senator Hecht who was here earlier, the chairman of this subcommittee, for allowing us to schedule this hearing. I do ask all witnesses, because we have a lot of ground we need to cover, to try and limit your remarks to a maximum of 5 minutes so we can have plenty of time to engage in discussion and questioning. Any additional material you would like to have on record can be submitted separately and in writing.

Now before we proceed with the first panel, if my friend Alan Dixon will permit, I would like to give Senator Specter the opportunity to make an opening statement if that would be agreeable, Alan.

Senator DIXON. Mr. Chairman, that's fully agreeable. May I simply say I have put my statement in the record in the interest of brevity and I appreciate the Chair allowing that and I yield to my distinguished colleague from Pennsylvania.

Senator HEINZ. Without objection, so ordered, and with thanks.

[The complete statement of Senator Dixon follows:]

STATEMENT OF SENATOR ALAN J. DIXON

Mr. President, I understand that this hearing has been called as a fact-finding mission to investigate problems involving the management of the Community Development Block Grant [CDBG] Program in Philadelphia, PA.

I believe that when widely publicized allegations are made which adversely affect a Federal funded Housing or Urban Development Program, this subcommittee has a responsibility to investigate those allegations. Therefore, Mr. Chairman, I welcome this hearing.

The primary objective of the Federal CDBG Program is to develop viable urban communities by providing decent housing and a suitable living environment, and to expand economic opportunities primarily for low- and moderate-income persons.

I am a strong supporter of the CDBG Program and, over the years, have fought for adequate funding of it. With very limited available funds, we cannot afford to ignore the type of allegations surrounding the city of Philadelphia's CDBG Program.

Today, I look forward to having the management allegations addressed, and I hope that we can make a full determination as to as to whether the allegations are with foundation.

Senator HEINZ. Another member of the committee is here, Senator D'Amato. Senator, would it be agreeable to let Senator Specter make his statement at this point.

Senator D'AMATO. Mr. Chairman, I would just like the record to acknowledge my presence and I'm indeed pleased to be here and have our distinguished colleague from Pennsylvania, the distinguished Senator from the hub of Pennsylvania—I don't mean there's any controversy there, Philadelphia that is, and so I would be pleased to yield.

Senator HEINZ. The only controversy that it could touch off would be a contest between the Philadelphia Eagles and the Pittsburgh Steelers and, unfortunately, for western Pennsylvania right now it wouldn't be as much of a contest as I would like.

Senator Specter.

STATEMENT BY ARLEN SPECTER, U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator SPECTER. Thank you very much, Mr. Chairman.

I am delighted to join you, Senator Heinz and Senator D'Amato. I would say that there are two U.S. Senators from Pennsylvania who come from the hub city of Philadelphia. Senator Heinz spends a tremendous amount of time in the city of Philadelphia, as frankly I do in the city of Pittsburgh. We are Senators for all parts of the State and Senator Heinz has been very astute and concerned about all the problems of the State and all the problems of Philadelphia and I congratulate him for moving forward with this hearing on this subcommittee at this time.

The hearing process is a very, very effective way to get to the bottom of issues and to get problems straightened out and I am optimistic that this hearing will have a very beneficial effect.

Senator Heinz quite accurately refers to the hearings which he and I held on the Internal Revenue Service in the Philadelphia office and that problem is now, I think, solved. I would not say that our hearings were the total factor, but our hearings did put a great many people on the move to correct whatever problems exist and that's what we want to accomplish here.

The issue is one of overwhelming importance for Philadelphia and little need be added to the statements that $52 million are involved, and that's a lot of money and there is a risk of losing $13 million, and that's a lot of money. And in an era where there are budget constraints and budget cuts, we have to make every single dollar count.

At the outset, I want to thank the Secretary of Housing and Urban Development, Secretary Pierce, and Regional Director Ken Finlayson, for what they have been doing on this and other scores, and I think that everyone should know that HUD has been very, very supportive of the problems of the city of Philadelphia. It exists not only with respect to these Community Development Block Grants where Senator Heinz and I met with Secretary Pierce and urged him to help us get to the bottom of what the problems were, but the critical factor at this time is to see to it that no funds are lost, that the funding goes ahead on these really very vital programs for housing and for economic development for minorities and for the elderly.

The Secretary of Housing and Urban Development has been very, very supportive. When we had an allocation for renovation of Schuykill Falls Towers that Senator Heinz and I had worked on, the Secretary of Housing and Urban Development was very cooperative in reallocating those funds to Wilson Park and for scattered site housing which we have done in collaboration with Mayor Goode and Julia Robinson and others.

When the tragedy in MOVE happened on May 13, 1985, on a Monday, on Friday of that week Senator Heinz and I accompanied Secretary Pierce—I shouldn't say we accompanied him—I should say we invited him. He came to Philadelphia with a briefcase with $1 million and a portfolio of 60-some houses to help on that emergency.

Now we have a tragedy in Philadelphia in the Logan area which is sinking into the Wingerhocken Creek and again Senator Heinz and I have been in the forefront there with Secretary Pierce, with Ken Finlayson, and others, so that there is really total cooperation with the city administration, with Mayor Goode, with housing director Julia Robinson, with all the other officials, to see to it that we solve problems.

I am confident that this hearing will be very effective in that way. Where problems exist, we want to identify them and we want to correct them, and the critical factor is that these funds be used for the poor people of Philadelphia who urgently need them.

I regret that I cannot stay long because we have a Judiciary Committee meeting which is scheduled to start in just a few moments, but I will follow these hearings closely and will review the transcript and stand ready, willing, and able to help my distinguished colleague on this important area and get to the bottom of it and solve the problems and keep these vital funds flowing for Community Development Block Grants in Philadelphia.

I thank you, Mr. Chairman.

Senator HEINZ. Senator Specter, we thank you. I just want to endorse everything you said about the importance of making sure that the Federal Government does do the right thing by the city of Philadelphia. You have been in the forefront, as you mentioned, in Logan with respect to the problems that we had with the MOVE conflagration, and now again with respect to this issue and many, many others. I won't detail them, but in my view, your former constituents when you were district attorney for many years and your present constituents in the city of Philadelphia are awfully well-served by your attention to their concerns.

Thank you for being here.

Senator SPECTER. Thank you, Senator Heinz. I might just add one word and underscore it. I talked with Mayor Goode last Friday in Philadelphia about Logan and related problems and I think it ought to be underscored that what Senator Heinz and I are doing is in the total spirit of cooperation for problem solving and to keep the funds going.

Senator HEINZ. Thank you very much, Senator.

I would like to ask our first witnesses, Mr. Moran and Mr. Finlayson, to come forward, representing HUD. Alfred Moran is the Assistant Secretary for Community Planning and Development, and Ken Finlayson is the Administrator for region III.

STATEMENT OF ALFRED C. MORAN, ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. MORAN. Mr. Chairman, it's my pleasure to be here this morning on behalf of the Department of Housing and Urban Development.

For the record, my name is Alfred C. Moran. I am serving as the Assistant Secretary for Community Planning and Development [CPD] at HUD. I would like to take this opportunity to thank the chairman and his staff for their courtesy in permitting us to testify first since I do have another engagement that's very pressing somewhat later on this morning.

I would also like to introduce some of my colleagues who are here with me who have responsibility for oversight and management of the Community Development Block Grant Program. Sitting to my immediate left at the table is Mr. Ken Finlayson, the Regional Administrator Regional Housing Commissioner for region III in Philadelphia. Sitting to my rear right is Miss Nancy Silvers, who is the Acting Deputy Assistant Secretary with responsibility for oversight of the Community Development Block Grant Program, among others; and also in the audience is Mr. Don Patch, who is the Director of the Office of Block Grant Assistance in my office here in Washington.

I would like to, with the Chair's permission, have the following statement put into the official record of this hearing.

CPD CONCERN OF MANAGEMENT PROBLEMS IN PHILADELPHIA

Over the last several years the CPD staff in our Philadelphia regional office have become increasingly concerned with the city of Philadelphia's management of certain aspects of the Community Development Block Grant or CDBG Program.

During the first 7 years of the CDBG Program in Philadelphia, calendar 1974 through 1981, funds were distributed to a number of public agencies and to a limited group of neighborhood-based nonprofit organizations. While overall responsibility for the program rested with a consolidated Office of Housing and Community Development, that agency conducted a minimal amount of monitoring of the subrecipients, most of it in the form of paper reviews of progress reports. HUD monitoring reports consistently cited the need for improved monitoring of program performance by the city, particularly onsite reviews of subrecipient operations. However, the Philadelphia area HUD office's primary attention during that period was focused on the city's lack of efforts to provide housing assistance for the low- and moderate-income population in need.

Beginning in 1982, and concurrent with the Department's shift from a detailed application to a final statement format, Philadelphia substantially restructured the organization of its program. Activities that were formerly carried out by the city were shifted to six delegate agencies—corporations and authorities legally independent of the city.

In turn, these agencies passed on a significant amount of the funds to dozens of neighborhood-based nonprofit organizations. As a result, the city's control over the use of block grant funds was further dispersed and weakened, since it was now two levels removed from the actual spending. As HUD's monitoring focus shifted to an examination of management systems and accountability for block grant funds, our reviews increasingly highlighted the need for more effective controls on the part of the city.

During the month of August 1986, the Philadelphia regional office recommended to me that the city be prohibited from obligating or expending $13 million out of its total fiscal year 1986 grant of approximately $52 million, until it established and implemented effective management systems for the control and monitoring of block grant funds. The management systems should address the need for a continuous process of monitoring delegate agencies and subrecipients, including timely and effective followup where deficiencies are found, and the imposition of sanctions by the city where needed to ensure that problems are in fact corrected. Particular emphasis was placed on ensuring that all Federal funds were properly accounted for and spent in accordance with the principles governing allowable costs.

Following the region's recommendations, a meeting was held in Washington with representatives of the city, HUD, and several congressional offices to discuss the seriousness of the monitoring findings. Also, Regional Administrator Kenneth Finlayson has held numerous meetings over the last several months with city officials to discuss the issues and to suggest ways in which the city could improve its management procedures.

NEW GUIDELINES FOR MANAGEMENT OF CDBG PROGRAMS

After the meetings with city officials, my staff in Washington studied recommendations from the regional office that suggested language imposing conditions on the city's CDBG grant, and made some minor revisions. I approved the conditions on September 18, 1986. Those conditions have been transmitted to the city by Mr. Finlayson.

The contract condition requires that management systems be developed by the city within 45 days of the grant award. Following HUD's review and approval of the systems, we will monitor their ongoing implementation over a period of 120 days. If the systems result in substantial compliance with HUD and OMB requirements, the funds will be released. If the city does not correct the management problems within the prescribed time period, we will reduce the fiscal year 1986 grant by a figure up to $13 million.

I believe that the seriousness of the 1986 monitoring findings fully justifies the action by HUD. We are encouraged by the positive reaction of city officials to our recommendations and we will work with the city to resolve these matters in as expeditious a manner as possible.

Mr. Chairman, that concludes my prepared statement. We now stand prepared to answer any questions you or your staff may have.

[The complete prepared statement follows:]

After the meetings with City officials, my staff in Washington studied the Regional Office's suggested condition language, made some minor revisions, and I approved the condition on September 18, 1986. It was transmitted to the City that same day by Mr. Finlayson.

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Senator Heinz. Thank you very much, Mr. Moran.

Mr. Finlayson, do you have any testimony you want to provide at this point?

KEN FINLAYSON, REGIONAL ADMINISTRATOR, REGION III, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. Finlayson. No, sir, I do not.

Senator Heinz. Well, I have some questions for both of you. I understand you have to leave in about 15 minutes, is that correct?

Mr. Moran. Yes, sir.

Senator Heinz. Very well. Now, Mr. Moran, you have stated what I interpret to in effect be the following history; that in the period up through about 1981, while there was a consolidated effort by the city of Philadelphia to monitor its CDBG funds even that wasn't very good. You said it was in the form of paper reviews.

What you're really saying, as I interpret it, is it was pretty lousy and very pro forma up until 1981 and then when the city subcontracted out to half a dozen agencies and they in turn sub-subcontracted out, the situation went from bad to worse to what you, I guess, described as intolerable.

Do I have the situation clearly in mind?

Mr. Moran. I would simply state that the situation became the way it is today.

Senator Heinz. Became the way it is today. Now there have been assertions—they've been in the press and they come to me—that the publicity and the questions raised by HUD regarding the Philadelphia CDBG Program are misleading in the sense that the problems have existed for years.

Now you've made a case that the character of the problem has changed, but are you satisfied that going all the way back over the last 6, 8, and 10 years that HUD has in fact properly discharged its responsibilities to monitor program performance?

Mr. Moran. Yes, I am, absolutely certain.

Senator Heinz. And you don't feel that in retrospect HUD could have been more decisive and earlier action by HUD could have been ~~taken~~ in order to avert the critical empasse at which we now are?

CHRONOLOGY OF THE CDBG SITUATION

Mr. Moran. No, Senator, I don't. The chronology of the situation is as follows: basically, HUD's approach to the situation pre-1982 was to do routine monitoring and audits. We found findings—and there were audit findings that were adverse to the city in the sense that we found deficiencies, we found money that was not being properly tracked, recordkeeping problems, et cetera—our normal procedures were followed, and that was: we would cite these findings and ask the city to take corrective actions or expect the city to take corrective actions as the recipient.

Moreover, the city's own audits turned up problems such as this. What we found later, however, was that after a period of time passed the city was not following up on those audits in such a way as to take corrective actions or even follow up to find out whether the findings themselves were ever addressed by the subrecipients, No. 1; and No. 2, we found the city correcting certain findings on a piecemeal basis.

We began to see systemic problems, and as we reviewed further and deeper we began to see systemic managerial problems that were far more widespread than simple audit findings. And that's something you wouldn't find until you had been involved for a period of time.

Senator HEINZ. When did you first ask the city to start correcting their problems?

Mr. MORAN. Well, we have a monitoring report that was issued by the regional office identifying 14 findings as early as June 4, 1984, which is over 2 years ago.

Senator HEINZ. So although there were problems uncovered in 1982, HUD didn't ask the city to take corrective action until 1984?

Mr. MORAN. No, excuse me a second. I was checking with Mr. Finlayson to double check my facts, as I said before, we were making auditing findings but the city was correcting those findings on a piecemeal basis. We didn't discover the systemic problems until we had a series of audits over a period of time that were turning up a pattern.

Senator HEINZ. At what point did HUD conclude there were systemic problems, either of you? When did you first conclude that?

Mr. MORAN. I'd say about a year ago.

Senator HEINZ. About a year ago?

Mr. MORAN. Yes.

Senator HEINZ. And in what document did you come to that conclusion?

Mr. MORAN. In June 1985, we had a report issued by the regional office finding six findings of systemic deficiencies.

Senator HEINZ. Is that the first finding of systemic deficiencies that you had made at that point?

Mr. MORAN. Yes, June 6, 1985.

Senator HEINZ. At what point did you communicate those to the city?

Mr. MORAN. Well, the audit was communicated to the city immediately thereafter.

Senator HEINZ. Now, have you found that there are other large cities that receive CDBG moneys that have experienced problems similar to those in Philadelphia?

Mr. MORAN. Pursuant to that question, we did make a check of our records and our information and our staff and the fact is, Philadelphia I believe is the fourth or fifth largest city in the country, perhaps the same ranking in terms of their block grant amount, and comparing that to other cities in that category, say the top 10 cities, we do not find the same kind of systemic problems in other cities of that size. No, sir.

Senator HEINZ. Well, are other cities well run?

Mr. MORAN. Well, in terms of those kinds of systemic problems, we don't find them. We do find auditing problems in other cities. We certainly find other kinds of issues involving the amount of money that is used for administrative costs that is exceeding our guidelines. That kind of thing occurs in many cities. We find them spending perhaps more money on administrative costs than they should, in our judgment, and less money on program costs.

But in terms of systemic recordkeeping problems of the magnitude of Philadelphia and tracking money, those kinds of problems, no, we do not find those kinds of problems on that magnitude in other cities of comparable size.

Senator HEINZ. Now you have put your finger on in your testimony of the 1982 decision of the city to farm out to its subrecipients and their subrecipients the day-to-day responsibility of running these programs.

Have you seen that practice put into effect in any of these other cities you just mentioned and, if so, what performance effects have you noted?

Mr. MORAN. I have to check. In region III I'm not aware of any other cities like that. Let me do some checking. There are other cities in other regions besides region III that have delegated these services to quasi-public bodies.

Senator HEINZ. Have they performed well or have they run into the same kind of problems in those cities?

Mr. MORAN. No, we have not run into the same kind of problems in those particular cities; not as serious.

Senator HEINZ. Why would that be?

FAILED TO FOLLOW UP ON AUDIT FINDINGS

Mr. MORAN. Well, again, as I indicated earlier, the city of Philadelphia, for one thing, when they made auditing findings, when they found deficiencies, the city failed to follow up on those deficiencies. They failed to, (a) indicate to the subrecipient what steps should be taken to correct the deficiency and (b) they failed to go back after a period of time to determine whether or not any corrective measures were taken at all.

Other cities have not been in that situation. Those kinds of omissions we're not finding, at least on as large a scale as we found in Philadelphia.

Senator HEINZ. You have criticized the city for failure to follow up on HUD findings both specific and generic. You have criticized the city for being sloppy in its administration of these programs, not just for the last 3 or 4 years but going back quite a time period, but you've said it's been worse the last 3 or 4 years. Are these kinds of problems that you have described somehow endemic to the Community Development Block Grant Program? Is there generally a weakness with the management of the CDBG Program by cities nationally?

Mr. MORAN. No; that is not to say there are not problems. Again, there are problems in many cities with different things. But I would not say that I would characterize the programs themselves as having an endemic problem.

Senator HEINZ. All right. Let me ask you, Ken, in your capacity as region III Director, the imposition of sanctions on the city's entire fiscal year CDBG budget would seem rather punitive. Now you've cut that back to 25 percent, is that correct?

Mr. FINLAYSON. That's correct.

Senator HEINZ. What steps after May 1985, did you take to get the city to follow up on the findings that Al Moran mentioned a moment ago?

Mr. FINLAYSON. On July 8, 1985, we issued a notice to the city directing them to terminate funding to the Inner City Organization Network [ICON] which was identified in our 1985 monitoring report. After that, in our——

Senator HEINZ. Well, that's 15 months ago on ICON, is that right?

Mr. FINLAYSON. That's correct. During that period of time the city worked directly with us as a result of the July 1985 monitoring report in identifying the findings and solving the problems identified in that 1985 report.

In May 1986, we again monitored the city of Philadelphia CDBG Program, and found 16 findings.

Senator HEINZ. What date was that again?

Mr. FINLAYSON. That was May 2, 1986. At that time, we found a number of problems which were generated out of the problems in 1985, and also since from that period of time, that led to the notice to the city terminating their ability to contract with subrecipients and eventually to our recent imposition of contract conditions.

Senator HEINZ. Now let me be clear on what action or inaction on the part of the city led to the imposition of the sanctions that you just mentioned. The May 2, 1986, document was what? What do you call it? Is there a name for it? Was it an internal document?

Mr. FINLAYSON. That was a monitoring report.

Senator HEINZ. It was a monitoring report. And what was it that caused you between May 2 and the time that you announced the cutoff that was August 8, is that correct?

Mr. FINLAYSON. That was July 10, 1986.

ANNOUNCED CUTOFF ON JULY 10, 1986

Senator HEINZ. July 10 when you announced the cutoff of funds, is that correct?

Mr. FINLAYSON. Yes, that's correct.

Senator HEINZ. What happened in that period to cause you to make that very significant decision?

Mr. FINLAYSON. The monitoring report was transmitted to the city of Philadelphia and also to me personally. During the period of May to July as a result of that monitoring report, we found that, in fact, the systemic deficiencies were continuing, and that we had to take more serious steps to encourage the city to address those deficiencies.

Senator HEINZ. And the monitoring report then confirmed that the deficiencies you had outlined earlier had not been corrected and in what basic plan or document had they been outlined prior to May 2, 1986? What was the date of the document or set of findings in which you told the city they had to make corrections of this nature?

Mr. FINLAYSON. Well, if I can explain, the monitoring report of 1984 identified 14 findings. Again, the city during the period of 1984–85 addressed those findings specifically and we resolved the findings. In the 1985 monitoring report we again identified six findings. We at that time——

Senator HEINZ. These were all specific, I gather?

Mr. **Finlayson**. They were specific, but in 1985 we found that they in fact were systemic-related deficiencies regarding the city's administration.

Senator **Heinz**. Was that the July 8, 1985?

Mr. **Finlayson**. That's in June 6, 1985.

Senator **Heinz**. And that was a monitoring report as well?

Mr. **Finlayson**. That was the next year's monitoring report, and we, at that time, came to the conclusion that we were not only identifying findings but they were, in fact, systemic in nature. We then worked with the city regarding the systemic nature of the problems, in addition to the six findings.

The city addressed the six findings specifically. They began to work with us on policies and procedures that would identify and address the systemic problems. We were satisfied that the city at that period of time was, in fact, moving toward the direction of identifying those problems. However, then, on May 2, 1986, we did another monitoring report, as I have just indicated, and found, in fact, that the activity that the city was conducting in identifying those problems was not resulting in results in the subrecipients as far as the financial systems and so forth.

It was at that time that we started to take more direct action.

Senator **Heinz**. OK. I think that makes the record clear on that process.

Now there's another concern I've got and it's this. HUD has said to the city, "If you do not have effective management and monitoring systems, we're going to cut off up to 25 percent or $13 million of your CDBG."

I presume that if the city were to lose 25 percent of its money, it would make it impossible for them to fund the grants for a number of deserving subrecipients. Senator Specter and I are concerned that deserving people don't get hurt.

How can we ensure that deserving subrecipients or sub-subrecipients, if you prefer, will receive the funds that they really ought to be entitled to in a timely and uninterrupted manner?

Mr. **Finlayson**. The $13 million that we have conditioned on the 1986 grant is not specific as to which CDBG activities will be affected should the city not respond to the conditions. Therefore, if we come upon the situation, which I hope does not occur, that the city does not respond adequately to our direction, I think at that period of time we will assess the situation and provide some guidance to the city relative to the $13 million.

I think it's on the record that HUD certainly shares your concern that deserving subrecipients should not be affected by an action of the city, and at that time we will make every effort to assure that that does not happen.

Mr. **Moran**. Senator, if I might add to that answer, it should be kept in mind that we have no indications from the city that there's any lack of willingness to cooperate with us. They really are trying to cooperate from every indication we've seen, No. 1.

PIPELINE OF CDBG FUNDS

No. 2, they do have a pipeline of block grant funds—that is, block grant funds that have not been drawn down from previous fiscal years. As of our latest records, the latest numbers show that the city has currently approximately $35 million that has not been drawn down from previous years in the pipeline, so to speak. Therefore, we don't anticipate a precipitous halt to funding certain grantees for a certain period of time. We aren't talking about just rolling to a stop, theoretically anyway. So we are terribly concerned about the subrecipients and the ultimate beneficiaries of our programs who are persons who are low and moderate income.

Senator HEINZ. I know your time is short. I have just two brief questions. Either one of you—this is probably for Ken. One of the most troubling allegations that HUD has made in effect is that the administrative costs charged against the annual CDBG grant by the city and its subrecipients far exceeds the 20-percent administrative costs allowed by law. And we don't know whether that's hundreds of thousands of dollars or millions of dollars, but understanding your current inability to untangle all these financial records at the various agencies and subrecipient level, what steps need to be taken in order to establish the financial facts so we can find out whether the law set by Congress has been broken?

Mr. FINLAYSON. In the contract conditions themselves, there is a specific section for the city to address that situation, to designate their costs between program and administration, and to report to us the exact financial situation regarding the disbursement of funds for administrative costs.

Senator HEINZ. Will that solve the problem?

Mr. MORAN. If they in fact comply with the conditions in the contract, yes, it will. That is a problem that we do encounter, by the way, in many cities—that is, cities exceeding the 20-percent cap to different degrees. But it is a problem we have encountered before and probably will encounter again in the future.

Senator HEINZ. Let me just conclude with a quote from a paragraph in one of your recent audit reports:

> Regarding the length of time it takes the city to correct deficiencies, requests for extensions of deadlines are the rule not the exception, where revised procedures are developed, compliance is often spotty, ineffective and/or not adequately monitored.

You go on to say that,

> Elsewhere it's asserted that one of the underlying problems for the city is its unwillingness to accept the political pain necessary to terminate nonperforming subrecipients.

COMPARING PHILADELPHIA TO OTHER CITIES

Now you've got between you a long body of experience at both the local and Federal level. How would you characterize those deficiencies compared to other communities?

Mr. MORAN. Well, first of all, are you quoting from a program report or an Inspector General report, the quote that you made?

Senator HEINZ. Program report.

Mr. MORAN. OK. Well, I'm sorry. Your question is: How would we characterize that compared to other cities?

Senator HEINZ. You've characterized the city as doing both a bad job and being unwilling because of political pain to take the necessary steps, such as I assume cut off an organization that simply wasn't doing the job the way they should have been doing it.

Have you seen this in other cities? How would you characterize your allegations of the performance of the city of Philadelphia compared to the other communities over which you have oversight responsibility.

Mr. MORAN. Yes, we have seen similar problems in similar cities. The process, by definition, puts the city in that position because we give maximum deference to local government determination as to how to spend the money. If the local government determines to spend the money in a manner that funds local groups, you develop constituencies. It's the nature of the process. Therefore, sanctions and other kinds of unpleasantries associated with monitoring and auditing deficiencies——

Senator HEINZ. If you've seen that in other cities, how is it different in Philadelphia?

Mr. MORAN. Well, the fact is that Philadelphia's problem, in terms of its magnitude, is probably what distinguishes it from other cities of its size. We see the dynamics of that situation in many cities. By definition, the process works that way. The local political process dictates many times decisions in the program.

On the other hand, again, Philadelphia's situation is the magnitude of it. We see a situation where we've gone in and tried to help them.

Senator HEINZ. I understand what you're saying. Just one last question. You say it is the magnitude of it. Is the situation in Philadelphia twice as bad, 10 times worse, 100 times worse than most other cities? How would you characterize it?

Mr. MORAN. I honestly don't have hard data to tell you that because it would be impossible for us to know. I would say this. From our experience—as you point out, our experience base here—the problem there is worse. It is ascertainably more severe—I'll put it that way—than other cities, in our judgment, and we are doing the best we can to correct it.

When you see us taking steps like conditioning 25 percent of a grant, that is a fairly severe sanction in my experience and we're doing that because we are very serious about trying to get them to come into compliance and we're very serious about helping them come into compliance.

Senator HEINZ. Al Moran and Ken Finlayson, I know you have to go. Thank you very much. We appreciate you being here.

Mr. MORAN. Senator, if you wish, I can leave a member of my staff who's a technician on block grants in the audience as a resource person.

Senator HEINZ. If you can spare that individual, I'm sure that would be helpful. Thank you very much.

Our next witnesses are Frank Kensill, executive director of the Institute for Human Development; Laura Mintzer, legal assistant, Senior Citizen Judicare Project; and Gray Smith, architect, all from Philadelphia. Would you please come forward?

At the very outset as you're taking your seats, let me thank you again, all three of you, for being willing and able to testify. As I indicated, you are somewhat unique. We've had some difficulty getting people who had stories they wanted to tell to come forward and tell them. So I thank you, Ms. Mintzer, Mr. Kensill, and Mr. Smith, for your citizenship. It's vital. People who are unwilling to exercise their citizenship, for all practical purposes, lose it. So we thank you sincerely.

Mr. Kensill, would you be the first of our three witnesses? Please proceed.

STATEMENT OF FRANK KENSILL, EXECUTIVE DIRECTOR, INSTITUTE FOR HUMAN DEVELOPMENT, PHILADELPHIA, PA

Mr. KENSILL. Senator Heinz, distinguished members of the Senate, and invited guests, my name is Frank Kensill and I serve as executive director of the Institute for Human Development [IHD] in Philadelphia.

I've been asked to speak this morning of the experience that our agency has had contracting with the city of Philadelphia on programs that receive Federal funds.

Over the past 5 years, we've been awarded eight contracts totaling somewhat over $3 million for work in housing-related energy conservation. These contracts involved many thousands of individual dwelling units with complex accounting and reporting requirements. This required us to work very closely with city personnel.

Until recently, we found it productive. We've come to admire some city staff and sense a sharing of concerns.

TWO CONTRASTS ON CONTRACTS

Presently, we have two contracts with Philadelphia Housing Development Corporation [PHDC]. Our experience with PHDC staff on these two contracts offers extreme contrasts.

The first is a continuation of emergency heating service to low-income Philadelphians. The second is weatherization and heating system retrofits to low-income Philadelphians.

The first, the emergency heating service, has exceeded contract goals each year restoring heat faster to more homes at less cost each successive year. This has been accomplished with a virtually perfect safety record and I might say without audit exceptions.

The workers at IHD have extraordinarily high morale, will work hours often as volunteers to help in any special needs referred by city agencies.

In contrast, we have a group of people that have previously weatherized 15,000 houses, developed a method for insulating houses in Philadelphia and taught it to Baltimore, developed a nationally recognized firm with its retrofit firm used in 20 States and won national recognition in the energy field.

In 3 months, trying to work with PHDC, this group has been demoralized in spirit and seriously damaged financially.

I think that there are very important lessons to be learned from the dramatic contrast of the results of these two similar contracts between the same two organizations, between PHDC and IHD.

In the first, there's a high level of trust. The PHDC manager of this program began by visiting our agency and by going through the entire process from a call coming in on the phone to actual delivery of service to the community recipient. He talked to workers, supervisors, and the community. He visited the jobsites and asked many, many thoughtful questions to fully understand the process and the problems. This became the basis of day-to-day communication. His staff and our staff helped to correct any mistakes or omission either made, constantly seeking ways to improve the quality of service to the community. When schedules and terms can't be as expected on either side and in all these contracts that always comes up, we take it as a challenge and find a way to accomplish our goal. Often this leads to improvement. We agree on the end, which is to maximize service to low-income Philadelphians, and both see the contract and Federal funds as a means to be used as creatively as possible.

In the second, a contract for weatherization, over 3 months of the contract were past before PHDC discussed the plan or the terms with the agencies who were to do the work. In those discussions agencies were given terms which later were found to be completely inconsistent with PHDC's contract with the funding source in the State. After almost 5 months, we finally received a contract totally different in essential details from the one we were verbally assured we would get. But that contract was consistent with a contract that PHDC had signed several months previously with DCA.

This then had to be revised to make it workable. We were given verbal authority to proceed by the project manager at PHDC, including the authority to supplement PHDC intake process and their survey work. We received both thanks and praise from Ms. Julia Robinson for our efforts.

During this period and with the authority and encouragement of PHDC, we initiated work on 268 houses. Of these, 141 were completed to standards that were accepted previously by the State on over 10,000 houses.

We submitted completed houses, invoiced, and were paid for some of the houses. Most of the payments are still outstanding.

After the municipal workers' strike, there was an abrupt change in inspection personnel. We received conflicting and incomplete instructions challenging much of what had been done to this point. Many treatments that were not previously used in weatherization were mandated and essential parts needed for us to comply with our contract were omitted. Discussion of energy savings or benefits to clients came to a halt. Inspections of heating systems which had been funded by DCA heavily in the past and are part of the contract were stopped. Storm doors on houses even with two doors and vestibules were added.

BREAKDOWN IN COMMUNICATIONS

We offered to follow their priorities, at least to try it. Even though the contract calls for inspections by PHDC within 5 days, this has not happened for even 1 of the 141 homes submitted. It is almost impossible to cooperate when there's no exchange of communication. Worse, there can be unintended duplication on the part of agencies in this confusing and conflicting atmosphere.

We have been instructed, for example, to invoice the city for five houses where we have already received payment. In addition, their detailed instructions are for over $1,200 more than the total of the figures. Fortunately, we have good records so we didn't do it.

We need to be able to check each other, not blame each other when there are problems. When a contract is half over and work is

STATEMENT OF ALFRED C. MORAN

Mr. Chairman, my name is Alfred C. Moran and I am the Assistant Secretary for Community Planning and Development at HUD. I would like to have the following statement put into the official record of this hearing.

Over the last several years the CPD staff in our Philadelphia Regional Office have become increasingly concerned with the City of Philadelphia's management of certain aspects of their Community Development Block Grant (CDBG) program.

During the first seven years of the CDBG Program in Philadelphia 1979-1981), funds were distributed to a number of public agencies and a limited group of neighborhood-based nonprofit organizations. While overall responsibility for the Program rested with a consolidated Office of Housing and Community Development, that agency conducted a minimal amount of monitoring of the subrecipients, most of it in the form of paper reviews of progress reports. HUD monitoring reports consistently cited the need for improved monitoring of program performance by the City, particularly on-site reviews of subrecipient operations. However, the Philadelphia Area Office's primary attention during the period was focused on the City's lack of efforts to provide housing assistance for the low and moderate income population in need.

Beginning in 1982, concurrent with the Department's shift from a detailed application to a Final Statement format, Philadelphia substantially restructured the organization of its Program. Activities that were formerly carried out by the City were shifted to six delegate agencies (corporations and authorities legally independent of the City). These agencies in turn passed on a significant amount of the funds to dozens of neighborhood-based nonprofit organizations. As a result, the City's control over the use of CDBG funds was further dispersed and weakened, since it was now two levels removed from the actual spending. As HUD's monitoring focus shifted to an examination of management systems and accountability for CDBG funds, our reviews increasingly highlighted the need for more effective controls on the part of the City.

During the month of August 1986, the Philadelphia Regional Office recommended to me, that the City be prohibited from obligating or expending $13,000,000 (out of its total Fiscal Year 1986 grant of $52,000,000) until it established and implemented effective management systems for the control and monitoring of CDBG funds. The management systems should address the need for a continuous process of monitoring delegate agencies and subrecipients, including timely and effective follow-up where deficiencies are found, and the imposition of sanctions by the City where needed to ensure that problems are corrected. Particular emphasis was placed on ensuring that all Federal funds were properly accounted for and spent in accordance with the principles governing allowable costs.

Following the Region's recommendations, a meeting was held in Washington with representatives of the City, HUD, and several Congressional offices to discuss the seriousness of the monitoring findings. Also, Regional Administrator Kenneth Finlayson had held numerous meetings over the last several months with City officials to discuss the issues and to suggest ways in which the City could improve its management procedures.

just beginning and not all the conditions and details are worked out, there will be haste and much anxiety. It's understandable there will be mistakes and misunderstandings. For example, we were notified that the State had refused to allow the city to weatherize a certain property that we had already done. In a conversation with the persons concerned, it came to light this was clearly impossible; the State couldn't have done this. And confronted with this, the signer of the letter withdrew the statement.

To make order of this kind of situation and the uncertainty it creates requires that there be someone in charge who is familiar with weatherization, with the program, and with the people who are involved in it and we need the cooperation of everyone.

My first call is as a pastor and I've got to end with a story. There's a story about a little boy and an uncle that he loved and admired very much. One day the uncle lifted the little boy, put him up on a high wall, and he told him to jump. The uncle said, "Don't be afraid. I'll catch you." The boy jumped. The uncle stepped aside and the child crashed to the ground. When the injured boy pulled himself together and slowly got to his feet, his uncle responded, "Son, you've learned an important lesson about the world. Don't trust anybody, not even your uncle."

We feel sometimes that "uncle" has let us down. Fortunately, one inning is not the game. We'll get up and our faith will help us to trust again.

I do have serious concerns as a citizen. Our national freedoms are ensured by a government that rules by the consent of its people. If we cannot trust the government's word—and that, unfortunately, has been our experience—soon there will be no consent. And the alternatives are coercion or chaos. We need your help in reestablishing a spirit of trust that's rooted in honest communication and a vision of government that's guided by the needs of the community.

Thank you.

[The complete prepared statement follows:]

Senator HEINZ. Thank you very much, Mr. Kensill. I happen to agree with everything you say about trust and hopefully some day we'll prove Harry Truman wrong. Harry Truman said that if you're looking for someone to trust in Washington, DC, buy a dog.

Our next witness is Ms. Mintzer. Please proceed.

STATEMENT OF LAURA MINTZER, LEGAL ASSISTANT, SENIOR CITIZEN JUDICARE PROJECT, PHILADELPHIA, PA

Ms. MINTZER. Good morning. I'm Laura Mintzer and I'm a legal assistant with the Senior Citizen Judicare Project in Philadelphia. We provide free legal services to low-income senior citizens, 60 years or over, in the city of Philadelphia. We do a lot of different types of legal work but I am here to talk about clients' experiences with OHCD and PHDC grants.

My format is a little bit different than the others. I didn't prepare a statement. I prepared thumbnail sketches of 4 out of the 15 or so bad grant cases we have on file.

I want to make sure that everybody understands that the discussions will not include any exaggeration at all. The problems that my clients are suffering are very real.

RÉSUMÉS OF FOUR CASE HISTORIES

Senator HEINZ. Let me just interrupt you to state for the record that what you've submitted to the committee are résumés of four case histories from which the name and other personally identifying information has been intentionally removed to protect the privacy of the clients, but you are stating that these in fact are real cases.

Ms. MINTZER. Absolutely. I'll do my best not to mention the names. I've been in the forest a long time in these cases and it's hard for me to see the trees any more.

Senator HEINZ. These are identified, respectively, as clients 1 through 4.

Ms. MINTZER. OK. I'm not sure which is one, two, three or four, but——

CASE NO. 1

Senator HEINZ. Let me tell you what I have. There is a 68-year-old with an income $388 a month, client 1; a 66-year-old with the same income, infirmity of arthritis, is No. 2; a 62-year-old with a $334 a month income is client 3; and the 75-year-old with the income of $419 a month is client 4.

Ms. MINTZER. OK. That's fine. Thank you for identifying those for me. I'm going to just very briefly discuss their experiences and then I have a very brief list of things that I think are financially impacting the programs.

Client No. 1, his mother applied for a grant in 1979. Nothing every came of that, so he applied in either late 1980 or early 1981. The system involved is plumbing. Two contractors apparently were involved, at least the papers indicate that. We don't have too much evidence of who was involved from OHCD except one name and another name was illegible.

The grant was for $4,600 and it's difficult for us to see when the work started. There were proceed orders that date June 1981 and December 1981. There are no dates on the contracts at all. To get down to the bottom line of money, my client is a very good advocate for himself. He's very strong. He's very assertive. He came in with photographs that I think have been supplied to you regarding the problems that resulted from the installation of the new plumbing on the second down to the first floor.

The problem is this. It's not a matter of when the problem started. The plumbing was installed. In installing the plumbing, a portion of the bathroom floor, which also meant the ceiling of the dining room, had to be removed and a portion of the wall of the dining room had to be removed. The plumbing was installed and the contractors left.

The client asked, "What about reconstructing my wall? And as it stands now, my bathroom floor does not meet the wall, literally." And their response was, "It's not in the contract. There's no money to reconstruct the wall."

He has left the wall in the condition that it is now for 3 solid years because he's a very strong individual. He wanted to show everybody what happened to him. The photographs that I submitted show that his dining room wall is out and part of his bathroom floor is completely gone and he does not have the money to reconstruct the wall himself.

So that, we consider, to be a major dollar concern. It's impossible for us to believe that a wall could be torn down and——

Senator HEINZ. What you've described is the client now has an adequate plumbing system——

Ms. MINTZER. We don't know about that.

Senator HEINZ. Perhaps.

Ms. MINTZER. Yes, but no wall and no bathroom floor.

Senator HEINZ. What you've described is you think he has an adequate plumbing system but, for sure, the rest of the house has been trashed.

Ms. MINTZER. Well, his dining room wall is gone and part of his second floor bathroom flooring is gone. So that if something falls—water falls, it just goes over the little lid and drops to first floor. It's hard to believe but the pictures show it. That's why I'm here. Photos must be seen to be believed.

Senator HEINZ. Only an advantage if he was planning on putting in a very extensive air conditioning system.

Ms. MINTZER. Right. And with a $388 income, the answer is, he wasn't making those plans.

CASE NO. 2

The client that you've identified as No. 2 I think is one of the most glaring examples that I have ever seen. The client's arthritis is so bad that at times she has to crawl up the stairs to her second floor. It's a PHDC grant, $10,350 because extensive interior and exterior structural work had to be done.

We have gone over the documents with a fine-toothed comb. There was no address and no phone number supplied on any of the documents with regard to the contractor. I looked it up in the phone book. There was a last name to that effect. The name of the business was different. But we have to assume that that was the contractor. We don't really know. And my client certainly could never find out.

In this case, it's nice that my client had a social worker who kept a log between 1985 and 1986. In March 1985, this whole situation got started. She was told that the grant was probable, but then between April and June she made countless calls to OHCD staff members with absolutely no response. The social worker wrote to an OHCD individual higher—I don't know if we should use these names or not—but to a higher individual—not Ms. Robinson—of OHCD. He said the repairs would begin in August 1985. In fact, with the following months, September, October and November, every time she called they said the bids were too high, the grant has been approved, we'll do it in the fall. Then it was the bids were too high in October and may have to wait until spring.

Now please bear in mind that consequential damage to our clients property is increasing as the months go by, particularly in bad weather. So if you have bad roofing, it's only going to get worse the longer the work is delayed.

Finally, the work got started after a letter of concern was sent to State Senator Rocks of Pennsylvania, and an actual petition was prepared by her neighbors and submitted to Philadelphia City Councilman John White, begging that the repairs be completed. They went to extraordinary lengths before coming to Judicare to see to it that the work was done.

Gray Smith was asked by us to take a look at the work. He can I think give you an idea. But the bottom line was that it will take at least $11,925 to repair the problems created by a $10,350 grant.

That determination was made by Mr. Smith on September 15 of this year. They tore down her front porch and for about a month left the overhang of her front porch hanging with no porch. A lot of the work was done with inferior products. Instead of brick face they used stucco which is much less expensive. And Mr. Smith's conclusion was that the work had no value.

Shortly thereafter, ironically enough, my client got a letter from a higher individual at OHCD telling her that she must sign off on the grant. This is one of the few clients that we have that was not intimidated into signing a satisfaction form in spite of the fact that they aren't satisfied. She never signed off on the grant. We are pleased about that. It takes a lot of strength for someone to sit there and have OHCD people standing there saying, "sign," and she didn't sign. And we were very, very pleased with her strength.

Shortly after Gray Smith did his inspection, a letter was received by my client giving her 7 days to submit reasons to OHCD as to why the satisfaction form was not being signed.

Senator HEINZ. And a copy of that letter is part of the hearing record.

Ms. MINTZER. Yes.

[The following material was subsequently supplied for the record:]

PHILADELPHIA HOUSING DEVELOPMENT CORPORATION
1234 Market Street, Philadelphia, Pennsylvania 19107
4th Floor

September 9, 1986

Dear Mrs. :

I have been informed that you will not approve payment to the contractor, Ferrari Enterprises, Inc., for work completed at your home.

Our inspector states that all work in the contract was satisfactorily completed but that you requested an additional set of steps, handrail and sidewalk - not in the contract. I would, however, like to know your reasons for this apparent misunderstanding.

I must hear from you within seven (7) days from date of this letter.

Very truly yours,

Shirley M. Easley

SHIRLEY M. EASLEY
Manager
HOME Program

SME/p

CASE NO. 3

Ms. **Mintzer**. Very, very quickly, No. 3. I've been working with this client for several years on a lot of different matters. She did sign off on her grant as being satisfied. But this involved roofing and plumbing.

She is not a complainer so that when she told me that she was having trouble with the roofing, immediately I believed her and Mr. Smith did an inspection. The roofing she described was so bad I sent an independent roofer that had nothing to do with the city or OHCD out to look at the roof just to see if she was in a dangerous position. He went out. He's a very busy roofer. He called me up and he said,

> Laura, I cannot leave the house this way. I know I have a lot to do, but I'm going to do some work on this house at no charge to the client. This roof cannot be left in this condition.

This was after all the work was completed and my client had signed off. She said that she didn't want to sign off, but she was not strong enough to resist.

It's an unusual dollar source that may be affected, but the health of several of my clients has been very adversely affected during these times of frustration. Medicare funds have been had to be used when their frustration, tension, hypertension or whatever has been affected forcing them to see a doctor as a direct result of some of these problems.

CASE NO. 4

No. 4, this is interesting in that this was a $10,400 grant for rehabilitation. My client was asked to supply $900 at 3 percent interest. She took out a loan in that amount and has paid it off. The work was done in such a manner that she had to hire a private electrical contractor to straighten out the electrical work that was done under the grant. She paid $450 for that.

The appropriate permits were not obtained by the contractor. As a result, my client was sued by the city of Philadelphia for not getting the appropriate zoning and permits. She was taken to court. She was too sick to appear. She was fined $1,000-plus for nonappearance. Finally, it was determined by the court or by the city law department that the failure to obtain the permits was not in fact her fault and those charges and the fines that she would have had to pay were discharged.

When people come to us for help obtaining a grant, we're caught between a rock and a hard place. We want the repairs to be done, but at the same time we've seen a pattern of shoddy workmanship. Good work does not come to us. I'm sure there are grants that work out well. We don't see them because why should they come?

So we will work with them in attempting to get a grant. Now most of the clients come when the work is done. Well, I shouldn't say done—when there is no longer activity between the client and the granting agency. So what we do is we try to contact the contractor, which in many cases is unsuccessful, and we do everything we can.

The bottom line of this problem is accountability. We have—and I'm going to end my remarks with this—we are frustrated and I've been frustrated for 6 years. We have nowhere to go. For 6 years I've been going up the ladder of these agencies as high as you can go since 1980. We get the same responses that our clients get, which is unusual, because in most contractor cases contractors will show a little more respect to Judicare than they might to the client. We get the same responses that the client gets in these cases and there is nothing we can do.

We have a jurisdictional limit for small claims of $1,500 because we're a small, poorly funded agency. Every now and then we can sue. We have collected once on a lawsuit. Our history is no response from these agencies or "We'll send an inspector out." That's how generally we and our clients are appeased temporarily—"We'll send an inspector out." I have not had a case that has been cured in the 6 years I've been at Judicare—I have never had a case cured by the granting agency. That's one of the reasons I wanted to testify because emotionally my clients are in a very poor state. We need the work done. We don't need uncollectible judgments. We don't need to talk to contractors. We need our clients' problems cured in some fashion.

And I thank you for allowing me to speak today.

Senator HEINZ. Ms. Mintzer, thank you. Let me ask you this. How is the Senior Citizen Judicare project funded? Is that by the city?

Ms. MINTZER. How many days do you have? We have about 11 different sources of funding. The Pew Memorial Trust has been wonderful, Glenmeade, for 3 years has given us a lot of funding. We get some funding from Community Legal Services, and the Philadelphia Bar Foundation. We get some funding from what's left of the Legal Services Corp. and from the Philadelphia Corp. for Aging.

Like I say, right now we're in deep trouble, but we do get funds wherever we can.

Senator HEINZ. Let me put on a hat I'm not officially wearing today as chairman of the Senate Special Committee on Aging, and commend you for what I would call work and effort far above and beyond the call of duty with scant reward, particularly when it comes to the most important which is actually getting the result you believe is the correct result.

Ms. MINTZER. What's good about Judicare is that—and what's interesting about these cases—and I'm talking for everybody at Judicare—we get results and we always have. This is the only area that we don't.

Senator HEINZ. Thank you.

Mr. Smith.

STATEMENT OF GRAY SMITH, ARCHITECT, PHILADELPHIA, PA

Mr. SMITH. Thank you, Senator Heinz.

My name is Gray Smith. I have a private 11-year-old architectural and urban planning practice in Philadelphia which specializes in low- and moderate-income housing projects and programs.

I've been asked by your staff to present testimony today on one aspect of, the Philadelphia Community Development Block Grant

STATEMENT OF FRANK KENSILL

DISTINGUISHED MEMBERS OF THE SENATE AND INVITED GUESTS:

I have been asked to speak this morning of the experience that our agency, the Institute for Human Development has had contracting with the City of Philadelphia on programs that receive federal funds. Over the past five years we have been awarded 8 contracts totalling $3,783,374 for work in housing related to energy conservation.

These contracts involved many thousands of individual dwelling units with complex accounting and reporting requirements. This required us to work very closely with City personnel. Until recently, we have found it productive. We have come to admire some City staff and sense a sharing of concerns.

Presently we have two contracts with Phila. Housing Development Corp. Our experience with PHDC staff on these two contracts offers extreme contrast. The first is a continuation of emergency heating service to low-income Philadelphians. The second is weatherization and heating system retrofits to low-income Philadelphians. The first, the emergency heating service, has exceeded contract goals each year, restoring heat faster to more homes, at less cost

each successive year. This has been accomplished with a virtually perfect safety record. The workers at IHD have extraordinarily high morale, and will work long hours, often as volunteers, to help in any special needs referred by City agencies.

In contrast, a group that has weatherized over 15,000 houses, developed a method for insulating row houses in Phila. and taught it to Baltimore; developed the nationally recognized FURNACE RETROFIT Program used in 20 states, and won national recognition in the energy field; in three months this group has been demoralized in spirit and damaged financially by their sincere efforts to work with PHDC staff.

I think these are very important lessons to be learned from the dramatic contrasts of results of these two similar contracts between the same two organizations. In the first there is a high level of trust. The PHDC Manager of this program began by visiting our agency and going through the entire process from a call coming in on the phone to actual delivery of service to the client. He talked with workers, supervisors, and community. He visited the job sites and asked many, many thoughtful questions.

This became the basis of day-to-day communication. His staff and our staff helped to correct any mistakes or omissions either made, constantly seeking ways to improved the quality of service to the community. When schedules or terms can't be as expected on either side, we take it as a challenge and find a way to accomplish our goal. Often, the unexpected has led to improvement. We agree on the end, which is to maximize service to low-income Philadelphians, and both see the contract and the federal funds as a means to be used as creatively as possible.

On the second contract, for weatherization, over 3 months of the contract were past before PHDC discussed the plan or terms with the agencies who were to do the work. In those discussions, agencies were given terms which later were found to be completely inconsistent with the existing PHDC contract with DCA. After almost five months, we finally received a contract totally different in essential details from the one we were verbally assured we would get, but consistent with the existing DCA contract signed 2/7/86 by PHDC.

This then had to be revised to make it workable. We were given authority to proceed by the Project Manager of PHDC, including supplementing the PHDC intake process and

their survey work. We received both thanks and praise from Ms. Julia Rob8nson for our efforts.(see attached letter.) During this period and with the authorization and encouragement of PHDC we initiated work on 268 houses. Of these, 141 are completed to standards that were accepted, previously by the State on over 10,000 houses. We submitted completed houses, invoiced, and were paid for some of the houses. Most are still outstanding.

After the Municipal workers' strike, there was an abrupt change in inspection personnel, and we received conflicting and incomplete instructions challenging much of what had been done to this point. Many treatments that were not previously used in weatherization were mandated and essential parts needed for us to comply with our contract were omitted. Discussion of energy savings or benefits to clients came to a halt. Inspections of the heating systems, which had been funded by DCA heavily in the past and are part of the contract, were stopped; storm doors on homes already with two doors and vestibules were in some cases added.

We offered to follow their priorities as a test. Even though the contract calls for inspections by PHDC within 5 days, this has not happened for even one of the 141 houses submitted. It is almost impossible to cooperate when there is no exchange of communication. Worse, there can be unintended duplication on the part of agencies in this confusing and conflicting atmosphere. We have been instructed, for example, to invoice the City for five houses where we have already received payment. In addition, their instructions are for over $1,200 more than the figures total. Fortunately, we have good records, so caught this. (see attached letters 8/13, 14). We need to be able to check each other, not blame each other when there are problems.

When a contract period is half over, but work just beginning, and not all conditions and details are worked out, there will be haste and much anxiety. It is understandable that there will be mistakes and misunderstandings. For example, we were notified that the State had refused to allow the City to weatherize a certain property. (see attached) In a conversation with the persons concerned this would have been impossible and confronted with this the signer of the letter withdrew the statement. To make order of this kind of situation and the uncertainty it creates requires the assistance of an experienced manager in the weatherization or energy field, and the cooperation of all concerned.

There is a story of a small boy and an uncle that he loved and admired very much. One day the uncle sat the little boy on a high wall and then told him to jump. The uncle said: "Don't be afraid, I'll catch you!" The boy jumped, the uncle stepped aside, and the child crashed to the ground. When the injured boy pulled himself together and slowly got to this feet the uncle responded: "Son, you have learned an important lesson about the world!" "DON'T TRUST ANYONE, NOT EVEN YOUR UNCLE." We feel for the little boy. But we will get up and our faith will help us trust again.

Our national freedoms' are insured by a government that rules by the consent of its people. If we can not trust the government's word, soon there will be no consent. The alternatives are coercion or chaos . We need your help in re-establishing a spirit of trust that is rooted in honest communication and a vision of government that is guided by the needs of the community.

Program, CDBG, a homeowner loans and grants effort called HIP, or the Home Improvement Program.

BACKGROUND OF PHILADELPHIA'S HIP

The HIP is a division of the Philadelphia Housing Development Corp., a quasi-public nonprofit organization. PHDC is funded almost entirely from the city's CDBG Program through an exclusive, noncompetitive contract at several million dollars a year.

I am somewhat familiar with the HIP process, PHDC, and Philadelphia's CDBG Program from a number of perspectives. My many and varied experiences with the Home Improvement Program throughout its permutations has led me to draw several conclusions.

The HIP is fraught with mismanagement. It has a lack of technical competence, a paucity of social or moral commitment to those who would benefit from a HIP run well, and a strong resistance to criticism and change. In my opinion, its operations result in a waste of public dollars, abuse of the legal process, and victimization of the elderly who subscribe to the HIP.

For many types of clients, my architectural firm and I have engaged in most forms of publicly funded housing projects. I guess I'm a glutton for punishment. From CDBG, FHA, and HUD, to State housing finance agencies, public housing authorities, urban renewal and municipal and private programs. We have been architectural consultants to PHDC in a number of house rehabilitation projects and even to the Home Improvement Program in 1983 and 1984. And I should say that many of our clients in other projects that we've done in housing have been several of the nonprofit community based organizations that Mr. Moran referred to earlier who are recipients of CDBG funds.

Before our work in that program, however, as president of the local chapter of the American Institute of Architects, the AIA, in 1982, I testified in the Philadelphia City Council regarding a growing concern of the profession about the city's CDBG Housing Rehabilitation Programs. At the time, hundreds of houses were under rehabilitation through the HIP and other city programs, without sufficient and safe technical documentation, in our opinion, without the legally required architects and engineers participation, and without adequate technical monitoring of the construction work thereof.

My testimony, however, didn't change the programs much since then.

Senator HEINZ. What was the date again of that hearing?

Mr. SMITH. 1982.

Senator HEINZ. Thank you.

WORK WITH JUDICARE PROJECT

Mr. SMITH. More recently, I've been consulting with the Senior Citizen Judicare project of the Philadelphia Bar Association and I might say it's one of the best groups that I've ever worked with in terms of their commitment and willingness to try to solve a problem in spite of their lack of budgeting.

At their request, I inspect the houses of elderly folks who have consumer complaints regarding construction contractors performance. I review the work of roofers, plumbers, electricians, and contractors. I compare the work to their contracts, a term that I use loosely, and prepare technical reports. I am then available for expert testimony in court and arbitrations.

And many of those cases, incidentally, have been resolved as a result of the work of the Judicare lawyers and their volunteer lawyers and, in some cases, the result of my reports I might say, rather than court or arbitration.

A number of the 45 cases that I have reviewed and inspected are PHDC's Home Improvement Program's jobs or whatever their title happened to have been during the various years that their titles have changed.

The HIP construction work I have seen in these senior citizens' houses is beneath standard quality. It is usually incomplete and it is contrary to contract requirements. It usually results in further damage to the home and further expense and discomfort to the elderly homeowner.

The HIP is a veritable laboratory of what not to do in a home rehabilitation project. Some of the bad features of the program are:

One, the contractors selected to perform the work are generally incompetent and unable to do even standard quality work.

Two, the HIP construction specifications, as they are called, and work writeups are not specific. They are poorly worded and they are too open for loose interpretation by the contractor.

Three, quality workmanship and materials are not encouraged or enforced by HIP monitors and inspectors.

Four, changes in the work are frequently made, sometimes unilaterally, that further cheapen the work, violate the contract, and contradict the homeowner's expectations.

Five, the construction contract, which is lengthy and very detailed—it's a form that's been used for many years—is not enforced by HIP monitors. And as a result, building permits are not obtained when required, licensed trades people are not utilized when required, safety certifications are not secured or provided, warranties are not written or honored, flaws in the work are not corrected, and the work is not substantially completed.

As you can see, getting a HIP home repair loan or grant is no grand prize.

I have attached to my testimony a copy for the chairman three reports of the examples of HIP cases in which I have been involved for the Judicare project. They detail the characteristics I have just described. Each of these senior citizens who experienced their HIP rehabilitation are much more the worse for wear from it.

HIP DIDN'T PROTECT CLIENTS' INTERESTS

Briefly, the basic problem for Ms. X, Ms. Y, and Ms. Z is that the HIP did not protect their interests. Their contractors got paid but the work wasn't done right. And these ladies were ultimately stuck with a whole new group of problems.

Ms. X, for example, had new roofs put on three sections of her house. The trouble is, the HIP specifications writer forgot to mention the fourth section of her roof, the one that was leaking in 1983, and still leaks. The contractor didn't fix the portion of the roof that was not mentioned—"Hey, it wasn't in the specifications."

Incidentally, Ms. X didn't get her warranty either, although it was called for in the contract documents.

Ms. Y had repair work done in all of her house. Unfortunately, the workmanship is so amateur and incorrect as to be useless and unsightly, and this is a proud woman who takes care of her house extremely well.

The contractor did the carpentry and electrical work without the legally required permits such that Ms. Y was ultimately cited for permit and code violations, including some unsafe, unlicensed electrical work. Her roof still leaks but she never got a roof warranty from the contractor to pursue compliance.

The HIP monitor for this job apparently did not enforce all of these essential aspects of the contract, but the contractor got paid.

Ms. Z lost her whole big front porch without expecting it. Although the ineptly worded specifications for the job called for the porch and the steps to be repaired, somebody—not Ms. Z—decided to tear down the porch and its roof and replace it with some puny little steps that are uncomfortable and unsafe. Not only that, what's left of the neighbor's porch is teetering toward collapse, a dangerous condition.

Finally, a new brick rear wall that her specifications call for turned out to be a much cheaper, uglier stucco. There's more of this, but HIP thinks the job is done. They told Ms. Z to approve it so the contractor can get paid. Good for Ms. Z for refusing. No permits, no certificates, and no warranties on this one, either.

There are more such stories that have been documented by the Judicare Project and I've seen others myself. It is not without some risk that I testify here today and I appreciate your comments, Senator Heinz. Public officials in Philadelphia don't take kindly to criticism and I have to make a living back there in that city. But in my capacity as a human being, not as an architect, I feel I must speak out on the wrongs committed against poor, old, and defenseless folks.

The notion of free home repair grants and low-interest loans for those folks is one of the best ever to come out of the Federal housing programs. Working well, as it does in Birmingham, Pittsburgh, New Orleans, and many other cities, it does wonders for everybody involved, including the local politicians, I might say.

In Philadelphia, the HIP rarely does wonders for anyone. Thank you.

Senator HEINZ. Thank you for your very complete, very courageous testimony. And I speak for the subcommittee and the full committee that if we detect or are made aware of any discrimination against any witness before this committee because they've come before this committee, they will have the full weight of the Senate Banking, Housing, and Urban Affairs Committee deal with them. And I think that I could probably say the same for the Department of Housing and Urban Development. I see them nodding in the affirmative. So you've got at least two out of three branches of the Federal Government with you and, with the Judicare Project in there, you might even swing the judiciary around as well. So we thank you.

Ms. Mintzer, I want to just ask you to generalize on some of the specifics you presented in these four cases.

You have contacted both the Philadelphia Housing Development Corporation [PHDC] and the Office of Housing and Community Development [OHCD] to try and obtain assistance; is that correct?

Ms. MINTZER. Yes.

Senator HEINZ. How would you characterize, as a general matter, their reaction, first, and, second, their followup?

Ms. MINTZER. You don't want to know.

Senator HEINZ. The Chair takes that as a negative comment.

REACTION AND FOLLOWUP OF OHCD

Ms. MINTZER. As I said before, we work with a lot of private contractors and we get the job done when it's a private contractor problem. We have found, though, in the cases of trying to go to the individual contractors who were contracted by the grants—and I will say Ms. Robinson excluded—I have never dealt with her on the phone, but I have dealt with her high subordinates, one woman in particular. She has treated us in a nasty fashion. My clients use the same word. We are verbally abused. Not profanity, just pushed aside.

One thing I want to say is it is interesting that we have seen situations where OHCD did recognize that the contractor was doing a poor job and did write letters to the contractors saying, "We will remove you from the list unless this work is done properly." We were pleased with that, but there was no followup whatsoever, and the contractor had already been paid and he's still on the list.

Senator HEINZ. In the four cases as to which you've testified, roughly $27,000 was involved, and what did either your clients or the people who put up that money, which is the taxpayers, get for that $27,000?

Ms. MINTZER. Oh, my God.

Senator HEINZ. You've testified that your clients got a lot of grief and substandard work. Was any of the work acceptable?

Ms. MINTZER. Yes. Not in the radical case of No. 2. You can see some work having been done properly, but if you applied for a grant in 1981 and the work is done in 1984, the consequential damages that resulted during those years between the time of the application and whenever—and then the new applications are made—it may be just a matter of months before all that plaster falls off and so——

Senator HEINZ. And in significant part, this is because the ability of either OHCD or PHDC to respond and follow up is somewhere, in your judgment, between minimal to nonexistent?

Ms. MINTZER. To be honest, I would say in terms of positive followup, I would say nonexistent.

Senator HEINZ. Mr. Kensill, what is your experience in communicating with PHDC about your contracts?

Mr. KENSILL. Well, I've had two very contrasting experiences. I have been in a meeting where——

Senator HEINZ. You had one very good experience with one part.

PHDC OFFICIALS HAVE BEEN DEROGATORY

Mr. KENSILL. That's right. I've been in a meeting where I've been sworn at by officials of PHDC. So I would say nasty is sometimes there.

Senator HEINZ. Did you communicate in the case of the weatherization contract with PHDC by phone, by letter? How did you do it?

Mr. KENSILL. I have communicated by letter, by phone, by personal contact.

Senator HEINZ. And the net response to all that has been what?

Mr. KENSILL. Has been extraordinarily confusing. It's been up and down. It's been inconsistent to the point where four of our staff have just voluntarily said they would not accept any pay; they don't want to be considered that they are on this project. I even have one person who says, "I'm embarrassed to be identified with the project."

Senator HEINZ. Mr. Smith, just a point of clarification on your testimony. You made a special point of identifying the individuals whose inspection reports are attached as X, Y, and Z. In the material submitted, the actual names actually do still appear. Would you want us to delete for the official record the names of the individuals?

Mr. SMITH. I believe so. I didn't realize that was a good practice so I would certainly suggest that.

Senator HEINZ. We will do so. But, as chairman, I would state that there are real names and addresses involved here.

Mr. SMITH. I only submitted those because the three cases that I listed have many more problems, both major and incidental, and I just tried to highlight the ones that are particularly shocking in my testimony.

Senator HEINZ. Now just to put your testimony and Ms. Mintzer's testimony in perspective, Ms. Mintzer pointed out that the serious problems come to her.

Ms. MINTZER. They start with us and then in many cases we'll contract with Gray Smith to give us professional opinions as to the problems.

Senator HEINZ. I understand that. Now, Mr. Smith, do you do inspections of Housing Improvement Program projects that the Judicare Project has not referred to you?

Ms. MINTZER. In other words, are you saying, are there other examples?

Senator HEINZ. Yes. Have you inspected other homes that have been worked on under the Home Improvement Program where for some other reason you've been asked to inspect them, as opposed to the fact that the Judicare Project has brought you in?

Mr. SMITH. Yes, I have. The Judicare Project is only for senior citizens. The Community Legal Services in Philadelphia, which is the legal aid program, has asked me several times to look at some work.

Senator HEINZ. On all the inspections you've performed, it's been on behalf of an advocacy organization such as Judicare or Community Legal Services; is that correct?

Mr. SMITH. If you don't include the work that I actually did when our firm was hired as architects to the HIP to actually prepare plans and specifications in some fairly complex HIP grant projects. But we were actually asked by the HIP to do that when we had a contract with them. But I have done it not just for advocacy organizations. I've been asked by individuals who have been referred, for example, by a social worker.

Senator HEINZ. Your and Ms. Mintzer's testimony is very damning of HIP, if we just take it at face value. I imagine if HIP was here they would say, "Well, these people—Mr. Smith and Ms. Mintzer—they just see the worst cases. They don't see all the jobs we do right."

If they were here and made that comment, how would you respond?

Mr. SMITH. I would say they're probably right. I would say that some of the worst cases we probably haven't seen because I think—and I'm not a social worker and I'm not a lawyer. I'm supposed to be an architect. But it tugs the heartstrings when you go visit people who are elderly and defenseless and have very little money and certainly no power and they are subjected to the kind of—and I have to call it abuse because that's what it is by people who administer the program. They are extremely scared. They are extremely thankful for Laura's work and my work. You just have to get somewhat involved emotionally in the process, though I try to limit myself to objective, technical analyses. But you do find that they know people who have had the same problem who are afraid and unwilling to speak up or are willing to just overlook it and live with the problem until they die or until they can find some other way to move out of their property and not have to suffer from it again.

But I'm sure there are good cases because there are hundreds of these cases. We've only seen a few.

ENTIRE PROGRAM IS INCOMPETENT AND GROSSLY INSENSITIVE

Senator HEINZ. From what you know of the Housing Improvement Program, are you saying that taking everything into account you believe that, in general, not just with respect to the specific cases you've mentioned—but in general, the entire program is subject to the mismanagement, the incompetence, the lack of moral commitment, and the gross insensitivity that you stated at the outset in your prepared remarks?

Mr. SMITH. Yes, I do.

Ms. MINTZER. Could I make one comment?

Senator HEINZ. Just a minute, please.

Ms. MINTZER. OK.

Senator HEINZ. What would PHDC or anybody else—what would have to happen to PHDC, what should the city do to bring these kinds of problems which, in my judgment, are without justification, which cannot be explained away as just bad luck—what would either PHDC or the city or we have to do to stop them from continually recurring?

Mr. SMITH. Well, let me say this because I know the subject of this hearing is regarding the funds for the CDBG Program in Philadelphia. I absolutely do not want to see the city lose one nickel. In fact, all of us who work with neighborhood groups in housing problems and programs and with the city in various instances lament every year the diminishing amount of community development and Federal housing-related funds. I would definitely hope that those moneys would not be cut off and they could be used to improve in whatever ways that I might suggest and others might suggest—to improve the HIP, among various others that I interface with in my work.

There are several things that have to be done I believe in the HIP or in whatever housing rehabilitation program that benefits elderly people and homeowners and the predominance of recipients are elderly people because they tend to be the most needy and since the programs are limited to the most needy and they can only serve so many, the elderly get served.

There has to be more technical expertise—and I'm speaking from my architectural and engineering background—more technical expertise in the structuring of the actual technical work of the program, the specifications, the way the inspections are done, the way they are reported, and the type of standards that are used to both govern the nature and quality of the work, as well as the performance of the contractor from an administrative point of view, and a significant amount of enforcement on the part of someone who understands what enforcement is all about who is objective about it and not working in favor of the contractors' interests to make the judgments at the end of the process.

I also would say that there are particular cases, such as the demolition of Ms. Z's porch where not only are permits required but the technical input of licensed architects and engineers are legally required when structural changes are made to a house, and that should be brought in in any case, and for a period of time that was done by the HIP.

It may very well be being done on a piecemeal basis. Our experience with it was not very complete. Yet, I think that is an ingredient that would help because you have the professional responsibility of architects and engineers involved in that process.

Senator HEINZ. Let me ask you this one last question. Ms. Mintzer, if you want to chime in, please do. On the one hand, Mr. Kensill testified that he has had a very good experience with the emergency heating program administered by PHDC. On the other, he has had terrible experience with the weatherization and heating system retrofits. You have had with respect to the Home Improvement Program, both of you, somewhere between miserable and unbelievable, as you tell it.

What's the problem? How can PHDC be so hit or miss? They're doing one thing apparently right. Why are they wrong and totally disastrous on the basis of this testimony in two out of three, Mr. Kensill?

LACK OF TECHNICAL EXPERIENCE

Mr. KENSILL. I'd like to suggest that I think one of the key elements is technical experience.

Senator HEINZ. So you would echo Mr. Smith's comments that they don't have the technical capability?

Mr. **Kensill**. I would say that it's extremely important. Energy conservation is a very complex field.

Senator **Heinz**. Well, technical capability is employed by management.

Mr. **Kensill**. Yes.

Senator **Heinz**. Do they also lack management?

Mr. **Kensill**. Well, I think that a manager has to be sensitive to the people that we're working with and I think——

Senator **Heinz**. Well, let's be blunt about it. Engineers and architects work for clients. Technical people don't usually run businesses. Managers run businesses.

Mr. **Kensill**. Yes.

Senator **Heinz**. Executive, decisionmakers run businesses. Why isn't it—I don't want to get you into deep trouble and I won't put these words—but isn't it a logical conclusion that if appropriate technical expertise isn't on board, if there's no followup, if there is malperformance and misfeasance of work, if there is no commitment to doing the job right, if there is not therefore commitment to leadership, that that means only one thing; that there are deep and serious flaws in the management of the PHDC? Is that a logical conclusion?

Or to put it this way, is there any other conclusion you can come to and, if so, what is it? If you want to take whatever the amendment is that prevents you from having retribution visited upon you for speaking your mind openly and clearly, feel free to take that.

Mr. **Kensill**. I think it's just very important to realize that it's mixed, but I think there are very important lessons that can be learned from things that do work and it's a shame that they can't be communicated, assimilated, and used in other things.

Senator **Heinz**. Does anybody else want to tread where angels fear to tread here?

Mr. **Smith**. I've never been known to be that fearful lately anyway. I get myself in trouble frequently. I'll take a shot at it.

Senator **Heinz**. Is there another explanation?

Mr. **Smith**. Well, I think there are several things. And I understand and I know that the administration of the CDBG Program is a very, very difficult and complex process. I have watched it for years in its formation in Philadelphia and beyond. It's very easy for managers and administrators and even the directors of the program—and I've known Ms. Robinson for many years from our days back fighting in the community in the community's interest all the way up to today. It's very difficult to make everything work right. It's very important to have good managers who you give faith, confidence, and responsibility to undertake the management of those projects.

I know in a construction project which involves various levels of technical skill and various levels of management, they somehow get built. Somehow, the Dirksen Office Building got built and it required a significant amount of technical knowledge and information and skill and a significant amount of management skill, much of which is exercised by the same people because they have to.

My suspicion is that the technical people that are involved in the program, the rehabilitation specialists as they are called, are not necessarily qualified to do the technical work that they are paid to do. From what I hear from the people that I deal with, many of them are not sensitive to the personal and emotional characteristics of the people that they are supposed to be serving. That's the problem.

POLITICAL INVOLVEMENT

A manager should detect that kind of failure or those kinds of failures and remove that person. Unless that person, of course, is protected by some political position, which in the case of rehabilitation specialists in Philadelphia that has been a tradition. Many of rehabilitation specialists have moved from agency to agency, whether it's a redevelopment authority, the Office of Housing and Community Development, the Home Improvement Program, PHDC, and even some of the nonprofits that are funded well by the Community Development moneys are the same people who got political appointments not based on their ability to analyze technical aspects of construction. And in fact, if you read the qualifications, the job description for a rehabilitation specialist, it starts out, well, if you're an architect or engineer you've got the job; but if failing that you have some technical courses, you may have the job; but failing that, if you've taken a couple of correspondence courses maybe; and failing that, if you've got a driver's license you can get the job.

That's an easy job to fill if you have a political appointee that you want to fill the job with. Unfortunately, my experience has been I have seen that occur. I cannot name names, of course, but I have seen it in my observations of those programs.

It is difficult for managers who are hired for their management skills, perhaps not for political reasons, to remove those people. They have to live with them and they have to live with the results of their untechnical, inadequate performance.

Yet, when the manager is faced with that kind of problem beneath them and they are unwilling to face that problem and they begin to defend the incompetence of those technical people, then they are being very bad managers. And I don't know how you get rid of them. I'm not very good at management, but I'm pretty good at technical stuff and I can see that's where the flaw is from my viewpoint.

Senator **Heinz**. What you've described is a system where incompetent political sychophants are rotated as if in musical chairs through a variety of similar positions in city-related housing and development agencies. And the question that comes to mind is whether there is a musical conductor or whether the conductor is out to lunch.

Mr. **Smith**. You're getting out of my league. I may not be able to answer that one.

Senator **Heinz**. Ms. Mintzer.

Ms. **Mintzer**. I can say this. In 1980 when I did handle my first OHCD case, I think that case was a very strong illustration of what we're talking about. It was during that case that I started realizing that there was no one in the agency to go to. I moved up. I have no problems with going to the heads of agencies and heads of businesses. I moved all the way up the OHCD rank to the director in 1980.

We sat down and we had good talks and I truly—and I wasn't naive—but I truly felt that the suggestions that I made and the promises that I received were going to come to fruition. They never did.

And when they didn't, I went to one young woman in the agency that I could really talk to—this is 1980—and she would not talk about what needed to be done in the premises of her own office. We would have to meet in a restaurant where we felt no one we knew was going to be so she could give me advice. And with her leaving, that was the last person in administration—like I say, it's the lack of accountability. We get frustrated because there is no one to talk to.

Senator HEINZ. I want to thank all three of you for some very important and valuable testimony. You have all come down from Philadelphia. I don't know if you plan to stay around or hit Amtrak or hit the road, but we thank you very much for coming here today. You have been extremely valuable. Thank you.

Would our next witnesses please come forward and take their seats: Ms. Julia Robinson, the director of the Office of Housing and Community Development, city of Philadelphia; accompanied by Mr. Cardell Blue. Ms. Robinson, thank you for being here.

STATEMENT OF JULIA ROBINSON, DIRECTOR, OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT, CITY OF PHILADELPHIA, PA, ACCOMPANIED BY CARDELL BLUE, EXECUTIVE VICE PRESIDENT, PHILADELPHIA HOUSING DEVELOPMENT CORP.

Ms. ROBINSON. Senator Heinz, thank you for inviting us and giving us an opportunity to tell our story after listening to the stories of others.

Before I start, I would like to introduce some staff that is here with Mr. Blue and myself so that if there are questions that they can answer they will certainly be ready to do so. Barbara Potts is a division deputy at the city's solicitor's office who works with us. Mr. Arvel Jones, who is director of monitoring and evaluation in the office of housing; and Mr. Jim O'Toole, who is a contract administrator for the department of commerce.

Senator HEINZ. Very well.

Ms. ROBINSON. For the record, I am Julia Robinson, director of housing for the city of Philadelphia. The director of the department of commerce and I are responsible for the oversight of the various Community Development Block Grant funded activities in the city of Philadelphia that are carried out primarily by the following agencies: Philadelphia Housing Development Corp., Redevelopment Authority of the City of Philadelphia, Philadelphia Commercial Development Corp., Philadelphia Industrial Development Corp., and Council for Labor and Industry.

We work in concert to provide housing, jobs, and community development services that benefit low and moderate income Philadelphians. Together, we administer a variety of Federal, State, and local programs that complement the CDBG Program. These programs are funded through the following sources: urban development action grants, housing development action grant, rental rehabilitation, tax exempt bonds, and the Commonwealth of Pennsylvania housing and community development grant. I am here today to give you an overview of our CD assisted activities, to discuss some of our accomplishments, and to talk about the recent events concerning the management of the CD Program.

GRANTS HAVE DECLINED FOR 6 YEARS

While our CD grants have been steadily declining over the last 6 years, we continue to provide services to low and moderate income Philadelphians. This fiscal year we will be administering a grant of $52,065,000 which is a 15-percent decrease from our grant of $60,923,000 during the preceding year. Even with this decrease, Philadelphia is one of the largest CD recipients and ranks fourth largest in the Nation. In fiscal 1986 alone, the implementation of our CD Program resulted in the processing and monitoring of over 3,000 contracts.

We provide services through various community development funded activities to the very low, low, and moderate income Philadelphians so desperately in need of housing, jobs, and community development services. The city has a mandate to use CD funds to benefit low and moderate income people which exceeds the Federal Housing Act requirement that 51 percent of the funds be used for this purpose. This mandate, established by local ordinance, requires that at least 75 percent of CD funds be used to benefit the very low, low, or moderate income families. Our preliminary figures for fiscal year 1986 indicate that 18,609 low-income persons were served by the CD funded activities. This represents 90.7 percent of the toal 20,502 persons served. Also in 1986, 97.2 percent of all persons served were of very low, low, or moderate income.

I would like to spend a little time telling you about our CD funded activities and achievements. Among our accomplishments during fiscal year 1986 were the acquisition of 2,209 properties for disposition to these same low income families; the rehabilitation of 449 homes, with an additional 296 units under construction, and 868 in the pipeline; the provision of utility emergency services to 2,681 low-income families; the repair of 3,284 heating systems; the repair and replacement of major systems in 2,329 homes; the provision of 345 mortgage and rehabilitation loans; the provision of 31 industrial project loans and grants which will create 700 new jobs, retain 1,300 existing jobs and generate over $70 million in additional projects; the provision of entrepreneurial and procurement assistance to 60 small firms which will create over 2,800 new jobs, will retain over 1,200 existing jobs, and will secure over $3,300,000 of private investment and $17,800,000 in procurement contracts; the reinvestment of $270,000 in 23 low- and moderate-income neighborhoods stimulated by neighborhood commercial revitalization programs and 145 storefront rebates; the provision of $2.9 million in working capital loans to assist 46 small and minority contractors which resulted in the rehabilitation of 274 homes for low and moderate income people; the provision of $4,981,000 in urban development action grant loans to the developers of nine housing, commercial and industrial development projects which created housing and job opportunities for low- and moderate-income persons.

INCREASED EFFECTIVE MONITORING

Administering such a large program is difficult and challenging. However, I believe we have been making steady improvements. We have moved from a period in 1982, where the city did not have a monitoring department, to our current situation of having a monitoring department and increasingly effective monitoring systems. Another indication of our improvement in administering the program is the steadily decreasing amount of questioned and unresolved costs, and program income exceptions noted in our annual audits. In 1983, 5 percent of our authorized grant and program income amounts fell into the questioned and unresolved category. In 1984, this was reduced to 3.2 percent and in our latest audit for 1985, this was again reduced to 1.7 percent of our total budget of $247 million.

Improvement can also be seen in our spending rate which is shown by our drawndown of CD funds. Please note that the drawdowns on the attachments were less than our grant amounts in 1984 and 1985. In 1986, we drew down amounts in excess of our grant for the year, indicating our increased capacity to expend CD funds.

In correspondence from HUD, including the December 24, 1985, letter approving our housing assistance plan, HUD has noted our progress and improvements. While we recognize our progress, we have also recognized our continuing need to improve, but we were totally unprepared for the restrictions imposed by HUD in its letter dated July 10, 1986.

Prior to this letter in a meeting 1 week before its release, we had no indication that HUD believed that the improvements needed in managing our program were so serious as to require an immediate restriction on the use of CD funds previously granted and to place our future CD grant in jeopardy.

I would like to provide you with a chronology of the meetings and correspondence between HUD and the city between July and September 1986 to provide you with an overview of the events concerning the management of the city's CD program. In the interest of time, if you don't mind, Senator, I have attached all the letters. I'm sure you probably have them. (Letters located within prepared statement.)

Senator HEINZ. I have them.

Ms. ROBINSON. And I would like to just skip down.

Senator HEINZ. Without objection, the letters will be part of the hearing record.

Ms. ROBINSON. The publicity resulting from these events has left the impression that there has been a wholesale disregard of regulations and statutory requirements by the city. This is not the case. We are aware, however, that there have been some instances of noncompliance and I believe we have made every effort to correct these problems.

In addition, we would have preferred to have additional time in which to implement the required improvements. The speed with which we have been required to implement these changes has caused problems for the city, its delegate agencies, and our subrecipients who are small nonprofit agencies. These nonprofits have been forced to adapt to these changes in recordbreaking time and at the same time have had to experience contract delays which jeopardized their existence.

IMPROVED MANAGEMENT SYSTEMS

Nonetheless, we have taken many important steps in improving our management systems. In addition to compiling our current management system procedures, the city reissued and revised our program income guidelines to require monthly reports from our major delegate agencies and other subrecipients. We also conducted a fiscal conference with the major delegate agencies on drawdown and disbursement procedures, including cash management and allocation of costs requirements.

Further, we have substantially revised our financial management guidelines for subrecipients, reviewed and evaluated the management control systems of our major delegate agencies, increased the number of audits and monitoring reviews required under the Single Audit Act of 1984, and shortened the period for imposing sanctions and requiring corrective action.

In conclusion, I would like to say the city intends to work diligently to continue to serve low and moderate income Philadelphians and that in doing so, we will strive to improve our performance and be in total compliance with program regulations. We will continue to work with HUD to perfect and refine our systems and we welcome HUD's input and technical assistance. I thank you for this opportunity to talk about our program and hope I can count on you and the subcommittee's continued support of the CDBG Program.

[The complete prepared statement follows:]

PREPARED STATEMENT OF JULIA ROBINSON

Good Morning Subcommittee Members:

I am Julia Robinson, Director of Housing for the City of Philadelphia. The Director of the Department of Commerce and I are responsible for the oversight of the various Community Development Block Grant (CDBG) funded activities in the City of Philadelphia that are carried out primarily by the following agencies:

- Philadelphia Housing Development Corporation
- Redevelopment Authority of the City of Philadelphia
- Philadelphia Commercial Development Corporation
- Philadelphia Industrial Development Corporation
- Council for Labor and Industry

We work in concert to provide housing, jobs, and community development services that benefit low and moderate income Philadelphians. Together, we administer a variety of federal, state and local programs that compliment the CDBG program. These programs are funded through the following sources: Urban Development Action Grants, Housing Development Action Grant, Rental Rehabilitation, Tax Exempt Bonds issued by the Redevelopment Authority of the City of Philadelphia, and the Commonwealth of Pennsylvania Housing and Community Development Grant. I am here today to give you an overview of our CDBG assisted activities, to discuss some of our accomplishments, and to talk about the recent events concerning the management of the CDBG program.

While our CDBG grants have been steadily declining over the last six years, we continue to provide services to low and moderate income Philadelphians. This Fiscal Year, we will be administering a grant of $52,065,000 which is a 15 percent decrease from our grant of $60,923,000 during the preceding year. Even with this decrease, Philadelphia is one of the largest CDBG recipients and ranks fourth largest in the nation. In FY '86 alone, the implementation of our CDBG Program resulted in the processing and monitoring of over 3,000 contracts.

We provide services through various CDBG funded activities to the very low, low and moderate income Philadelphians so desperately in need of housing, jobs and community development services. The City of Philadelphia has a mandate to use CDBG funds to benefit low and moderate income people which exceeds the federal Housing Act requirement that 51% of the funds be used for this purpose. This mandate, established by local ordinance, requires that at least 75% of CDBG funds be utilized to benefit very low, low or moderate income families. Our preliminary figures for FY'86 indicate that 18,609 low income persons were served by CDBG funded activities; this represents 90.7% of the total 20,502 persons served. In 1986, 97.2% of all persons served were of very low, low or moderate income.

I would like to spend a little time telling you about our CDBG funded activities and achievements. Among our accomplishments during FY '86 were:

- the acquisition of 2,209 properties for disposition
- the rehabilitation of 449 homes, with an additional 296 units under construction, and 868 in the pipeline
- the provision of emergency utility service to 2,681 low income families
- the repair of 3,284 heating systems in low and moderate income households
- the repair and replacement of major systems in 2,329 homes
- the provision of 345 mortgage and rehabilitation loans
- the provision of 31 industrial project loans and grants which will create 700 new jobs; retain 1,300 existing jobs and generate over $70,000,000 in additional projects
- the provision of entrepeneurial and procurement assistance to 60 small firms which will create over 2,800 new jobs, will retain over 1,200 existing jobs, and will secure over $3,300,000 of private investment and $17,800,000 in procurement contracts
- the reinvestment of $270,000 in 23 low and moderate income neighborhoods stimulated by our neighborhood commercial revitalization program and 145 storefront rebates

- the provision of $2,900,000 in working capital loans to assist 46 small and minority contractors which resulted in the rehabilitation of 274 homes for low and moderate income people.
- the provision of $4,981,800 in Urban Development Action Grant loans to the developers of nine housing, commercial and industrial development projects which created housing and job opportunities for low and moderate income persons.

Administering such a large program is difficult and challenging; however, I believe we have been making steady improvements. We have moved from a period in 1982, where the City did not have a monitoring department to our current situation of having a monitoring department and increasingly effective monitoring systems. Another indication of our improvement in administering the program is the steadily decreasing amount of questioned and unresolved costs, and program income exceptions noted in our annual audits. In 1983, five percent of our authorized grant and program income amounts fell into the questioned and unresolved category, in 1984 this was reduced to 3.2 percent and in our latest audit for 1985, this was reduced again to 1.7 percent of our total budget of $247,200,000.

Improvement can also be seen in our spending rate which is shown by our drawdown of CDBG funds. Please note that the drawdowns on the Attachment were less than our grant amounts for FY'84 and '85. In FY'86, we drewdown amounts in excess of our grant for the year indicating our increased capacity to expend CDBG funds.

In correspondence from HUD, including the December 24, 1986 letter approving our Housing Assistance Plan, HUD has noted our progress and improvements. While we recognize our progress, we have also recognized our continuing need to improve and were totally unprepared for the restrictions imposed by HUD in its letter dated July 10, 1986.

Prior to this letter and a meeting one week before its release, we had no indication that HUD believed that the improvements needed in managing our program were so serious as to (1) require an immediate restriction on the use of CDBG funds previously granted and (2) to place our future CDBG grant in jeopardy.

I would like to provide you with a chronology of the meetings and correspondence between HUD and the City between July and September, 1986 to provide you with an overview of the events concerning the management of the City's CDBG Program:

July 10, 1986	- Letter from HUD to the City which questioned the City's continuing capacity to effectively manage the CDBG Program. The letter advised the City of HUD's recent findings in the areas of financial management standards and controls, allocation of costs to the CDBG Program, and monitoring of subrecipients by the City and its delegate agencies. In the letter HUD prohibited the City from entering into new contracts or increasing funding for existing contracts. **The restrictions imposed by the July 10th letter will substantially effect our production for this Fiscal Year.**
August 14, 1986	- The City transmitted to HUD an outline of our program management system.
August 20, 1986	- In an effort to address in detail the concerns raised in the July 10th letter, the City sent to HUD a program manual which you see in front of you, that compiled the documentation and management procedures utilized by the City to implement, monitor, and audit the CDBG Program.
August 22, 1986	- HUD sent a letter acknowledging our letters of August 14th and 20th, and permitting the City to contract with the limited CDBG funds remaining from prior years.
September 18, 1986	- The City received approval of its CD Year XII Grant. However, HUD imposed a series of conditions which required the City to implement certain fiscal and monitoring improvements. In addition, HUD restricted 25% of the City's entitlement.

The publicity resulting from these events has left the impression that there has been a wholesale disregard of regulations and statutory requirements by the City. This is not the case. We are aware, however, that there have been some instances of non-compliance and I believe we have made every effort to correct these problems.

In addition, we would have preferred to have additional time in which to implement the required improvements. The speed with which we have been required to implement these changes has caused problems for the City, its delegate agencies and our sub-recipients who are small non-profit agencies. These non-profits have been forced to adapt to these changes in record breaking time and at the same time, have had to experience contract delays which jeopardized their existence.

Nonetheless, we have taken many important steps in improving our management systems. In addition to compiling our current management system procedures, the City re-issued and revised our Program Income Guidelines to require monthly reports from our major delegate agencies and other Subrecipients. We also conducted a fiscal conference with the major delegate agencies on drawdown and disbursement procedures, including cash management and allocation of costs requirements.

Further, we have substantially revised our Financial Management Guidelines for subrecipients, reviewed and evaluated the management control systems of our major delegate agencies, increased the number of audits and monitoring reviews required under the Single Audit Act of 1984 and shortened the period for imposing sanctions and requiring corrective action.

In conclusion, I would like to say the City intends to work diligently to continue to serve low and moderate income Philadelphians and that in doing so, we will strive to improve our performance and be in total compliance with program regulations. We will continue to work with HUD to perfect and refine our systems and we welcome HUD's input and technical assistance. I thank you for this opportunity to talk about our CDBG program and hope I can count on your Subcommittee's continued support of the CDBG Program.

ATTACHMENT A

CDBG DRAWDOWNS FROM THE LETTER OF CREDIT
(Does not include UDAG or Jobs Bill Drawdowns)

	FISCAL YR 84	FISCAL YR 85	FISCAL YR 86	FISCAL YR 87
JULY	8,713,664 a	3,914,354	5,537,215	2,667,180
AUGUST	6,517,087	4,491,477	4,582,760	4,334,992
SEPTEMBER	7,960,609	1,005,290	6,608,310	3,107,583
OCTOBER	1,493,443	2,632,577	3,581,468 c	
NOVEMBER	0 b	4,625,046	10,204,254	
DECEMBER	0 b	5,909,423	8,374,203	
JANUARY	3,695,504	5,316,844	6,534,032	
FEBRUARY	3,654,354	2,848,433	7,485,079	
MARCH	7,134,788	6,445,319	4,695,587	
APRIL	3,244,139	6,087,445	7,081,734	
MAY	6,007,714	3,930,312	4,008,540	
JUNE	2,656,144	3,881,477	5,251,032	
TOTAL	51,077,446	51,087,997	73,944,214	10,109,755
Entitlement Amount	62,307,000	60,990,000	60,923,000	52,065,000

FOOTNOTES

a. Includes a $2.5 million Lump Sum Drawdown.

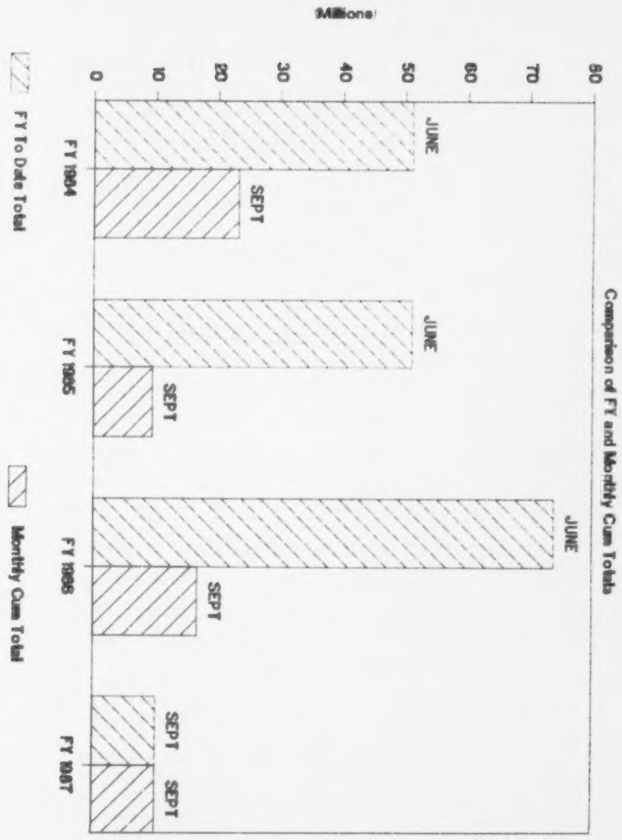
b. Drawdowns were made against the Interim Construction Assistance repayment for the Gallery II, in lieu of the CDBG Letter of Credit.

c. Drawdowns were made against the Interim Construction Assistance repayment for the Strawberry Square Associates, in lieu of the CDBG Letter of Credit.

TABLE 1

CDBG DRAWDOWNS

Comparison of FY and Monthly Cum Totals



ATTACHMENT B

U.S. Department of Housing and Urban Development
Philadelphia Regional Office, Region III
Liberty Square Building
105 South Seventh Street
Philadelphia, Pennsylvania 19106-3392

JUL 10 1986

Ms. Julia O. Robinson
Director of Housing
City of Philadelphia
1234 Market Street, 7th Floor
Philadelphia, PA 19107

Dear Ms. Robinson:

On May 2, 1986 and May 29, 1986, our Office forwarded to the City of Philadelphia the results of our monitoring of CDBG Program activities. As you are aware, the monitoring reports identified a substantial number of findings involving noncompliance with program requirements. Many of these findings repeat deficiencies that have been cited in previous monitoring reports. In addition, a number of our findings are similar to findings cited in audit reports that have been issued by the Office of the City Controller.

The most serious and most common deficiencies were found in the areas of financial management standards and controls, allocation of costs to the CDBG Program, and monitoring of subrecipients by the City and its delegate agencies. The two reports cite five findings involving violations of HUD and OMB requirements regarding program income and escrow account usage. Six findings concern questionable procedures for the allocation of costs to the CDBG Program in accordance with OMB cost principles. Four findings identify inadequate monitoring of subrecipients. A number of less serious concerns in these areas are also identified.

Another issue of significant concern which has been indirectly discussed in our monitoring letters and also raised by the City Controller involves the allocation of general administrative costs to the CDBG Program and the consequences for compliance with the 20% limitation on such costs. Based on our monitoring and reviews of the Grantee Performance Report, it is apparent that in many cases general administrative costs incurred by subrecipients are misclassified as program delivery costs. Since general administrative costs are currently budgeted and reported at or near the 20% limitation, it is likely that a proper accounting will show the limit to have been exceeded.

Our concern at this time is with the City's continuing capacity to effectively manage the CDBG Program in accordance with statutory and regulatory requirements. The results of our monitoring and the City Controller's audits clearly indicate that the overall management systems of the City and at least some of its major delegate agencies are substantially deficient in this regard. While corrective action is underway with respect to the specific findings we have cited, it is essential that the City preclude further instances of noncompliance until the necessary systems have been implemented to ensure proper controls for compliance.

We have determined, therefore, that the City may not enter into new agreements with subrecipients, nor obligate additional funds through amendments to existing agreements, until such time as effective controls are established to prevent a recurrence of the deficiencies. Likewise, subrecipients such as the Philadelphia Housing Development Corporation (PHDC) and the Philadelphia Citywide Development Corporation (PCDC) may not enter into new agreements nor obligate additional funds under existing agreements with other subrecipients.

These restrictions do not apply to the continued expenditure of funds already obligated through agreements with subrecipients, nor do they preclude budgetary revisions within the limits of existing agreements in order to address funding needs.

Before obligating any additional funds to subrecipients, the following issues need to be addressed:

1. An effective system for enforcing compliance with the program income guidelines must be implemented. Contract budgets should identify by source and amount all reasonable projections of program income to be earned under the agreement. Financial statements (billing forms) should be revised or a supplemental report designed to identify the source and application of program income. Monitoring responsibilities must be clearly defined and carried out as discussed below.

2. Drawdown and disbursement requirements must be clarified, including the restrictions on rehabilitation escrow accounts as identified in HUD Notice CPD 79-27 and our letter dated May 29, 1986.

3. Agencies that have been cited for substantial and/or repeat violations of the cash management requirements, including PHDC and the Philadelphia Rehabilitation Plan, must provide documentary evidence that their practices have been brought into full compliance.

4. Subrecipient budgets must reflect a proper allocation of costs to be paid with CDBG funds. The distribution of costs must be based on a cost allocation plan which reflects other funding received by the subrecipient. Staff listings should identify the total salary for each position and the portion which is allocated to the CDBG Program. Time distribution records should be reviewed to ensure that they adequately support the distribution of costs and provide other necessary information (e.g., general administration vs. activity delivery costs).

5. General administrative costs must be identified in the contract budgets and reported as such in the financial statements and reimbursement requests. Controls should be instituted to ensure that the 20% limitation is not exceeded.

6. Program management and monitoring responsibilities must be clearly defined, particularly with respect to financial concerns. At a minimum, the monitoring system should include three phases:

    a. Pre-contract or pre-disbursement reviews of subrecipients to ensure that they have adequate financial management standards and internal controls prior to the initial release of funds to the organizations.

    b. Ongoing program management including the review of subrecipients' requests for payment. Among other things, this review should verify that costs are documented, allocated to the CDBG Program in accordance with the rates previously established, necessary and reasonable; and that it is reasonably likely that all program income which has been earned to date has been reported and is properly being applied to program costs.

    c. Periodic in-depth reviews such as those conducted by the Division of Monitoring and Evaluation and the Office of Finance. These reviews should update the initial evaluation of internal controls and verify the information that has previously been reported through a review of source documentation.

    A crucial element of all three phases, and one that has often been found lacking, is a process for following-up and correcting deficiencies that are found. Management staff should be held accountable for the prompt resolution of monitoring and audit findings. Responsibilities for implementing corrective actions need to be clearly defined, and procedures should be established for the imposition of sanctions, such as suspension of payments, when warranted.

    Finally, the City needs to develop effective procedures for intra- and inter-agency coordination in cases of multiple contracts with CDBG funds.

By taking these steps prior to the execution of new contracts, the City should minimize the future occurrence of the types of deficiencies repeatedly cited in the monitoring and audit reports. The implementation now of effective management systems for the control and monitoring of CDBG funds should reduce the future management burden on the City to resolve monitoring and audit findings. It is also important to note that continued occurrence of deficiencies of the severity and scope we have found could lead to more serious penalties in the future.

The issues discussed above may be addressed with respect to certain subrecipients before others. Before providing additional funds to a particular subrecipient, the City should submit documentation which demonstrates that the necessary steps have been fully implemented with respect to the subrecipient and program(s) in question. This documentation should include relevant portions of the contract; copies of new or revised forms, procedures, operating guidelines, etc.; and the delineation of monitoring requirements and responsibilities. You may determine that some of the issues are not relevant to certain program areas, in which case you should advise us of the basis for this conclusion.

For agencies such as PHDC which contract with other subrecipients, similar information must be provided before entering into new or amended agreements.

Should you or members of your staff have any questions or desire assistance in addressing these matters, please contact your Community and Economic Development Representative, Mary E. Krank, at 597-1931.

Sincerely,

Stanley J. Glowacki

Stanley J. Glowacki
Deputy Director
Office of Community Planning
  and Development

RECEIVED
JUL 11 1986
DIRECTOR OF HOUSING

ATTACHMENT C

C I T Y O F P H I L A D E L P H I A

DIRECTOR OF HOUSING

JULIA O. ROBINSON
1234 Market Street
Seventh Floor
Philadelphia, PA 19107
686-9750

August 6, 1986

Stanley J. Glowacki
Deputy Director
Office of Community Planning
  and Development
U.S. Department of Housing
  and Urban Development
105 South 7th Street
Liberty Square Building
Philadelphia, PA 19106-3392

Dear Mr. Glowacki:

This letter will confirm and summarize the understandings reached during our meeting of Monday, July 28, 1986 concerning the issues raised in your letter dated July 10, 1986. Attached is a copy of the agenda, which the City prepared in an effort to seek clarification of the regulations and to determine the applicable provision of the regulations to be applied to the City's overall Community Development Program.

One significant understanding reached at the beginning of the meeting and reiterated at its conclusion, is that the July 10th letter was not intended to shut down the City's entire Community Development Block Grant ("CDBG") Program. In response to the City's statement that the letter appears to direct that City cease further contracting, your staff indicated that the letter permitted the City to contract with subrecipients and others in order to carry out activities not "**impacted**" by the six (6) areas of concern enumerated in the July 10th letter. Your staff indicated that the City should review its entire CDBG Program to determine what activities were not impacted. The City could enter into contracts or amendments for any activities that were not impacted. However, where a contract would be impacted by the issues raised by HUD's letter the issue would need to be addressed before a new contract or amendment was entered. HUD would review how the City intends to address the issues raised in the July 10th letter.

In response to questions regarding HUD's interpretation of the regulations the following understandings were reached:

A. Applicable Regulations - Is HUD using the proposed regulation or the published regulations? HUD in reviewing the City's CDBG Program is using the regulation in effect as of September 23, 1983 (publised regulations) parts of which may be superseded by statutory amendments enacted in 1983 and 1984. HUD is not applying the proposed regulations which have not been officially issued in final form. However, when recommending appropriate record keeping procedures, HUD will inform the City what to expect when the proposed regulation become effective and will suggest changes based on the proposed regulation where appropriate.

B. Definition of Program/Activity - There was extensive discussion of concerning the definitions of the words "Program" and "Activity." HUD staff stated that in the regulations, activities refer to a generic type of thing i.e., rehabilitation. The City stated that it viewed all the activities stated in the City's yearly C. D. Application as the "Program." The application sets forth numerous activities to be undertaken by the City or its subrecipients. By way of example, HUD staff pointed out that the City's application makes reference to the (1) "Home Program" which is a rehabilitation activity under the regulations and (2) Neighborhood Commercial Revitalization Corridor Program which consists of many types of activities permitted under the regulation. When deciding to fund any activity, the City must determine whether that activity is an eligible activity and meets one of the national objectives e.g., is the activity eligible and fundable.

It was agreed that the City should consider all of the activities specified in its C.D. Application as the "Program" and each activity implemented pursuant to the Program must be eligible and fundable.

Again, the City pointed out the importance that these terms be understood in light of the July 10th letter which has had the effect of shutting down the entire Program not just restricting the City from incurring new obligations for activities impacted by the six (6) areas of concern stated in your letter.

C. Standard for Substantial Compliance - The City requested clarification of how HUD measures whether the City's Program is in substantial compliance, as required by the regulation. The City requested this clarification because it needs a basis for self evaluation which employs the same criteria used by HUD. The City asked how it compares with other entitlements grantees of similar size and whether HUD uses a point score. HUD staff indicated that there is no point score used.

The City hereby requests further clarification of how this determination is made by HUD.

D. Continuing Capacity - The City requests clarification of how the determination of the City's continuing capacity is made by HUD. HUD staff explained that this determination is made pursuant to the regulations after considering monitoring reports, audit reports, Grantee Performance Reports and other information from the City. Your staff indicated that the repeat nature of some of the findings which are not addressed will impact upon the City's ability to monitor implementation of the Program. These concerns are what led to the July 10th letter.

E. Administrative Costs - The City requested information of how HUD calculates the base for administrative costs. In addition, the City questioned where a subrecipient or the grantee charges staff as administrative but that same staff spends a portion of their time on actual program delivery, how should these cost be classified? For example, the Office of Housing's Public Information Unit spends a significant amount of time preparing advertisements for contractors to participate in CDBG funded rehabilitation activities. HUD staff stated that if it can be documented that personnel classified as administrative are actually spending a percentage of their time on program delivery that percentage of their time could be charged to program delivery. HUD staff stated that anything directly tied to program delivery can be charged to program delivery. However, the City must be able to support such charges with documentation.

The City requested clarification of the classification of administrative cost where a "sub-subrecipient" is solely engaged in program delivery and is not engaged in overall planning or coordination of the City's Program. HUD staff again stated that the question to be asked is whether the person is involved in directing, supervising and overall coordination of the Program or is the person actually involved in program delivery. HUD staff pointed out where the contract scope of servies for the recipient activity contains provisions for overall planning or requires the recipient to seek funds from other sources prior to implementing the activity the time spent on such activities may be charged to administrative costs. Where a "sub-subrecipient is carrying out multiple activities" some of the staff costs may be administrative if they are engaged in coordination and not program delivery.

(This is an area where further clarification is needed in light of the regulations and other material supplied to the City by HUD to assist us in determining what should be charged as administrative cost.)

F. Allocation of Costs - The City requested clarification of whether it is necessary to allocate costs where the staff is carrying out activities all of which are funded with CDBG funds i.e., PHDC counseling. HUD staff advised that the Grantee Performance Report ("GPR") requires that cost be specified by eligibility category. HUD staff went on to point out that the same functions may be carried out under different eligibility categories; for example, if some of PHDC's counseling services were provided as a public services activity and other counseling services under housing rehab, there may be an allocation issue. It should be pointed out that it was not indicated whether the potential issue, cited in the example, would be an issue for purposes of the GPR or result in a violation of OMB Circular A, 87 or 122. We will need further clarification in this area.

HUD staff stated that costs must be allocated where a subrecipient's contract requires it to provide administrative and program delivery services. The City requested that this matter be the subject of future discussion in order to resolve some specific cost allocation questions.

The City also requested clarification of whether it was necessary to allocate costs where the staff is carrying out an eligible and fundable activity using CDBG funds and other funds. HUD staff advised that if an eligible community development activity is assisted in whole or in part with CDBG funds, the City could pay all of the administrative costs.

At the conclusion of our discussion of the regulations, we proceeded to the next item on the agenda which was "Process for Resolution of Issues." The City pointed out that responses to HUD's monitoring letters of May 2 and 29, 1986 had been sent to HUD. Since these two letters were specifically referenced in HUD's July 10th letter, the City believed that answers to many of the concerns raised by HUD were provided in the City's response. HUD staff stated that the City's responses seemed comprehensive but HUD had not completed its review of them. HUD's review team would establish a target date to meet and draft responses.

The City pointed out that to the extent that the City's responses addressed some of HUD's concerns, this would help us to move forward with some additional activities needed to implement our Program.

The next item on the agenda was the approval of the City's Year XII C.D. Plan. The City asked when the grant allocation would be available. HUD stated that the problem holding up the Year XII was determining an exact date for the congressional notification letter. Further, HUD had to adjust the amount of this years grant since the deferral money has been restored to the Year XII CDBG allocation. When the City receives its grant for Year XII, it will be slightly in excess of $52 Million Dollars. In approximately two (2) weeks HUD will complete its process and the City will be notified.

The remainder of the meeting was spent discussing when all of the restrictions imposed by HUD's July 10th letter would be lifted. HUD staff advised the City to provide information concerning how the City intended to address the six areas of concern throughout the Program. It was agreed by the City and HUD that the monitoring systems for program management needed to be strengthened and applied across the board.

The City provided HUD with a document of the activities which the City has determined are not impacted by the issues raised in the July 10th letter. This document was prepared by the City after a review of the City's overall Program.

HUD staff indicated that they did not see the resolution of the issues taking much time since some of the City's activities were already following appropriate pre-contract review and monitoring systems referenced in the July 10th letter.

The City requested a process whereby the Office of Housing and HUD could discuss specific issues and proposed that HUD and City staff meet. It was decided that the Monitoring and Evaluation Division, headed by Arvelle Jones, would be in contact with HUD's monitor Mary Krank. While Mr. Jones is on vacation, Elouise Edmonds will serve as the City's contact person. Both HUD and the City agreed that it is essential that we proceed expeditiously to resolve this matter.

At this time, I know that City and HUD staff have met and trust that through these communications, as well as the written information provided to you, your concerns will be addressed.

This letter represents our recollection of the understandings reached during our July 28th meeting.

If your understanding of any of the points stated in this letter is different, please inform me.

Sincerely,

Julia O Robinson

Julia O. Robinson

JOR/pac

cc: David Brenner
Arvelle Jones
Kathryn S. Lewis, Esq.
Leo Rosen
Cardell Blue
Michael Arno
Mary Krank
Lou Williams

Attachments

HUD MEETING - JULY 28, 1986

AGENDA

I. Clarification/Questions
  A. Regulations used for review
  B. Program/Activity - Definition
  C. Standard for Substantial Compliance
  D. Continuing Capacity Definition
  E. 20% Administrative Cost
    1. Base for calculation
    2. What is included/excluded?
  F. Allocation of Cost
    1. CD-funded activities
    2. CD-eligible and fundable activities using partial CD or other funds

II. Process for Resolution of Issues
  A. Responses to May 2 and May 29 Monitoring Letters
  B. Approval of Year XII
  C. Release of Restriction to Contract

III. Next Steps
  A. Process for clearing specific findings
  B. Timing

ATTACHMENT D

C I T Y O F P H I L A D E L P H I A

W. WILSON GOODE
MAYOR

August 14, 1986

Kenneth Finlayson
Regional Administrator
U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT
105 South 7th Street
Philadelphia, Pennsylvania 19106

Dear Mr. Finlayson:

Thank you for meeting with me to discuss first-hand your concerns regarding the monitoring of the City's Community Development Block Grant (CDBG) Program.

This letter is in response to both your letter of July 10, 1986 and our meeting.

I want to assure you that we are prepared to take the necessary steps to:

(1) Improve the overall process of contract administration and monitoring including compliance with the terms of the contracts, as well as all requirements of the Community Development Block Grant Program.

(2) Insure the uniform management of the entire system -- including major delegate agencies and subrecipients.

At a meeting of July 28, 1986, the U.S. Department of Housing and Urban Development (HUD) advised the City to review its overall Community Development Block Grant Program and determine which of the activities stated in the City's C.D. Plan are not impacted by the issues raised in the July 10th letter. At that meeting, HUD was provided with a chart indicating which activities we have determined are not impacted by the July 10th letter. A list of those activities is attached hereto as Attachment "A". The understandings reached during the July 28, 1986, meeting were summarized in

a letter dated August 6, 1986, to Stanley Glowacki, Acting Director of the Office of Community Planning and Development, from Julia O. Robinson, Director of Housing.

In response to HUD's monitoring letters of May 2nd and May 29th, the July 10th letter, and as a result of the July 28th meeting, the City of Philadelphia through its Office of Housing has instituted measures intended to address the concerns stated in HUD's letters. The actions which the City has or will implement are set forth below in the order stated in the July 10th letter:

(1) Program Income

The Office of Housing will inform all major delegate agencies, i.e., PHDC, RDA, PIDC, PCDC, CLI, that effective immediately they will be required to submit monthly reports of all Program Income. As indicated in our responses to HUD's May 2nd and May 29th monitoring letters, implementation of this procedure is underway. All subrecipients of a major delegate agency will be required to report Program Income monthly to the major delegate agency.

Prior to entering into a new contract, the Office of Housing and each of the delegate agencies will cause each contract to be reviewed by its Contract Review Committee. The fiscal unit of the Office of Housing, or where the contract is with one of the major delegate agencies, its fiscal unit of that agency, as a participating member of the Contract Review Committee, will review all proposed budgets to determine the source of Program Income and the amount projected. A specific provision will be included in the contract concerning the use of Program Income, e.g., that any Program Income must be spent or returned to the City, as provided in the contract, prior to requesting a drawdown of funds from the City's CDBG letter of credit.

The Reimbursement Request Form will be revised to identify the source and application of Program Income. This form will be revised after we receive input from the major delegate agencies. To the extent practicable, the Office of Housing will require the forms to be standardized and used by all major delegate agencies and their subrecipients. Prior to the standardized forms being developed, each major delegate agency and every agency expected to receive Program Income, will submit information monthly to the Office of Housing or the major delegate agency indicating that the Program Income is being accounted for and spent in accordance with the regulations.

(2) Drawdown and Disbursement Requirements

Pending our appeal of HUD's concern raised in the May 29th monitoring letter, neither the major delegate agencies nor their subrecipients will request funds to be placed in escrow accounts pursuant to CPD 79-27. This action was stated in the City's response to HUD's monitoring letter dated May 29, 1986. (See City's letter to HUD, dated July 11, 1986, response to Finding No. 1).

The Office of Housing will communicate immediately to all major delegate agencies that all disbursements of CDBC funds will be on a cost reimbursement basis and funds are not to be drawn-down more than three (3) days in advance of disbursement. All major delegate agencies will be instructed to re-emphasize this requirement to all of their subrecipients during the Administrative and Financial Requirements Conference specified in section I.(A)(6) of the Program Management System, Attachment "B" to this letter.

In addition, the Office of Housing will revise and, if necessary, supplement the compilation of applicable regulations, OMB Circulars and other information concerning administrative and financial requirements currently used by the Office pf Housing's Monitoring Unit. This document will be provided to all major delegate agencies. Each major delegate agency will develop a similar document which will contain, to the extent applicable, the same information as contained in the document prepared by the Office of Housing. The documents developed by the major delegate agencies will be submitted to the Office of Housing's Monitoring and Fiscal Units for review and approval.

(3) Documentary Evidence from Agencies with Substantial or Repeat Cash Management Violations

The two (2) issues previously discussed directly impact on cash management practices. Those responses are incorporated here and will be applied to all major delegate agencies and their subrecipients. Further, the City's responses to the May 2nd and May 29th monitoring letters include information which establishes that many of the cash management violations which HUD raised were resolved. Evidence to support this statement is contained in our responses.

In addition to our previous response, attached is the following documentation.

(a) Certification from the Director of Commerce relative to all the major delegate agencies carrying out economic development activities; attached to that certification is an excerpt from the audit prepared by an Independent Financial Auditor stating that PIDC is properly spending and accounting for Program Income. (See Attachment "C").

(b) Certification from PHDC that it (1) has instituted measures to account for all Program Income received by it or its subrecipients on a monthly basis, (2) has directed that use of escrow accounts cease until a final determination of the appeal concerning escrow account is reached. (See Attachment "D").

In addition, the Office of Housing will meet with all major delegate agencies concerning the types of cash management violations raised by HUD in its prior monitoring letters. Each agency, in the first instance, will be responsible for reviewing its processes and procedures and those of their subrecipeints to correct any cash management deficiencies that may exist. The Office of Housing, as a part of its pre-audit and monitoring review and as provided at section I.A.3. of the Program Management System (See Attachment "B"), will evaluate all major delegate agencies' cash management systems and direct changes if required.

(4) Allocation of Costs

All new contracts with the major delegate agencies will require cost allocation plans where the agency receives other income and performs non-CDBG funded activities. Where a major delegate agency contracts with a subrecipient, each contract will be reviewed by a Contract Review Committee where the participant from the fiscal unit will specifically review the contract to determine whether OMB Circular A-122 or A-87 requirements have been addressed and whether the budgets adequately reflect an appropriate allocation of costs. (Note: as a part of any solicitation for service providers, information will be requested concerning other activities in which the major delegate agency or the prospective subrecipient is engaged and what if any other sources of income they receive. The contracts will require that this information be updated as new funds are received by the major delegate agency or the subrecipient.)

Documentation in support of allocation provisions contained in the contract will be reviewed by the contract administrators periodically during on-site monitoring visits.

(5) Administrative Costs

As a result of the July 28th meeting, it is clear that this is an area where we will seek additional information from HUD. At this time, we believe that those costs required to be charged as administrative costs do not exceed the 20% limitation specified in 24 C.F.R., section 570.200(g). As discussed during the July 28th

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meeting, there are several functions which the City currently charges as general administration costs which could properly be allocated between and charged to administrative and program delivery costs.

Initially, the Contract Review Committee will review each contract to determine whether the activity or a portion of the activity is administrative or program delivery and what, if any, allocation of costs is required. The fiscal representative will review contract budgets to determine what allocation is required and to determine whether the budget is consistent with the projected allocation.

Contract administrators during their periodic reviews of the contracts and in reviewing requests for payments, will review documentation in support of the allocation provisions contained in the budget, i.e., time distribution records, etc.

The fiscal departments of the delegate agencies will maintain information concerning the amount of administrative costs included in contracts with subrecipients. This information will be submitted to the Office of Housing where a compilation of administrative costs will be maintained for the City's CDBG Program.

(6) Program Management and Monitoring

Attachment "B" contains an outline of the Program Management System which the Office of Housing intends to adopt and require to be implemented by all major delegate agencies. This system requires (1) pre-contract review of subrecipients conducted by the fiscal unit and the contract administrator, (2) orientation conferences for subrecipients, (3) on-site visits by contract administrators, and (4) audits or reviews of all contracts over $50,000.00 and an audit and a review of all contracts with Neighborhood Advisory Committees. Further, a specified percentage of contracts under $50,000.00 will be audited or reviewed.

The system will require a process for corrective action which contract administrators will be required to follow. The Office of Housing will establish sanctions, which all major delegate agencies will impose in the case of an irregularity. Based on the degree of the irregularity, the contract administrator will make a recommendation for corrective action, subject to approval by his/her supervisor. However, immediate suspension of funds will occur, where appropriate, under the following conditions:

(1) Misappropriation of funds.

(2) Gross non-compliance -- fiscal, legal or programmatic.

(3) Violation of criminal law.

(4) Non-payment of taxes.

(5) Absence of an appropriate accounting system, control mechanisms and fiscal procedures.

Contract administrators will report on the status of all contracts which they administer. Specific areas related to financial controls, cash management systems, documentation, and program delivery will be addressed in the contract administrator's reports.

The City in its response to HUD's May 2, 1986, monitoring letter accepted HUD's recommendation that a clearing house be established. Pending consideration of the more complex system stated in the City's response, the Office of Housing will immediately computerize information concerning all subrecipients and major delegate agencies. Prior to making a final decision to contract with a subrecipeint, it will be determined what, if any, CDBG funds that agency is currently receiving from the office of Housing or any major delegate agency; where an agency has multiple contracts, allocation of costs will be reviewed, and the required budgetary adjustments will be made.

In addition to addressing these six (6) specific concerns, we have also established a uniform procedure to assess the activities of delegate agencies for CD Year XI (See Attachment "E"). We believe that the information above provides a detailed response to the six (6) concerns raised in HUD's July 10th letter.

Finally, a Deputy for operations will be appointed. Recruitment for this position will begin immediately. This person will supervise the uniform application of our revised program management system and will be thoroughly knowledgeable of the Community Development Block Program.

The Deputy will be integrally involved in the contract review process. Another essential component of the contract administration process currently includes the City Solicitor's Office which has assigned three (3) attorneys to review all contracts and to counsel staff concerning the regulations.

The City of Philadelphia has seriously considered the concerns raised by HUD in the July 10th letter and by our prior responses to HUD's May 2nd and 29th monitoring letters has indicated how these concerns have been addressed. By this letter, we have specifically advised you of the steps which we have taken or will take to strengthen our program management throughout all agencies and City departments responsible for spending and monitoring CDBG funds.

It is our desire to reach a satisfactory resolution of the problems which HUD has raised, so as to avoid any further interruption of our CDBG Program. In order to continue operating beyond August 29th, an immediate approval of our CD Year XII Grant and the removal of all prohibitions against contracting is necessary.

Your prompt attention to this matter will be appreciated.

Sincerely,

W. Wilson Goode

W. Wilson Goode

cc: Julia O. Robinson, Director of Housing
David W. Brenner, Director of Commerce

Attachment A

The City proposes to contract for the following activities which are not impacted by HUD's letter of July 10, 1986 or where corrective actions have been implemented as per the City's responses to HUD's monitoring letters of May 2nd and May 29th to carry out these activities as specified in the C. D. Plan for Year XII using prior years' funding and Year XII funds.

Activity	Agency Responsible OH	PHDC	RDA	Comm	Other City Agency
1. **Vacant Rehabilitation**					
a. Homestart [1]		X			
b. PRP		X			
c. Tech. Asst.		X			
2. Acquisition Through Condemnation		X			
3. Acquisition Support-Title Searches	X				
4. Section 108 Loan Repayment		X			
5. Real Estate Acquisition/ Disposition		X			
6. **Rental Rehabilitation**					
a. Public-Conventional & Scattered [2]	X				

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[1] The Office of Housing directed PHDC to immediately implement competitive bidding requirements of OMB Circular A-102 for selection of all future rehabilitation contractors.

[2] We have been advised that HUD, by letter dated May 28, 1986, cleared all findings related to PHA. On July 18, 1986 information concerning PHA's cost allocation system was submitted to HUD for review.

Activity	Agency Responsible				
	OH	PHDC	RDA	Comm	Other City Agency
b. Public-Weatherization [2]	X				
c. Private-rental & cooperative		X			
d. Emergency rental repairs (L&I)					X
7. **Rehab Assistance to Homeowners**					
a. HOME Program		X			
b. Heater Hotline		X			
c. Back-up Loans		X			
d. SHARP Minor Repairs		X			
e. Community Improvement (NHS)		X			
8. **Economic Development**					
a. PIDC				X	
b. PCDC [3]				X	
c. CLI				X	
d. Enterprise Development Zones				X	
e. Inner City Industrial Parks				X	
f. Neighborhood & Special Development				X	
9. Interim Construction Assistance		X			
10. **Public Services**					
a. Horticultural Society	X				
b. Utility Emergency Services		X			
c. Rehab-Training & Counseling	X	X			
11. Community Improvements (NPC)	X				
12. Urban Renewal Liabilities			X		
13. Site Improvements-Include HDA	X	X	X	X	
14. Neighborhood Facilities		X			
15. **General Administration**					
a. OH	X				
b. NAC's	X				
c. PHDC		X			
d. Technical Assistance-Neighborhood Development Center & Citywide		X			
e. Commerce				X	
f. Other City Agencies-Council, Finance, Law City Planning & Auditing					

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[2] We have been advised that HUD, by letter dated May 28, 1986, cleared all findings related to PHA. On July 18, 1986 information concerning PHA's cost allocation system was submitted to HUD for review.

[3] Pending the submission of a cost allocation plan which is due on September 15, 1986.

PROGRAM MANAGEMENT SYSTEM

General Principals:

1. Systems, procedures and requirements will be communicated to all agencies receiving Community Development funds.
2. Checks and balances will be established by implementing and maintaining the following independent functions:
   a. Contracting, including provider selection, contract preparation, contract administration as defined below,
   b. monitoring as defined below, and
   c. auditing as defined below.
3. Implementation of uniform process and systems will be applied across the board.

I. Contracting Process -

Consolidation of contracting functions at all agencies

A. Pre-Contract

1. Request for Funding - Reviewed by Contract Review Committee composed of Legal, Fiscal, Program, and EEO staff for eligibility and fundability and appropriateness.
   a. Request for Proposal Procedures
      i. Develop document containing program requirements, selection procedures and factors to be used in evaluating proposals
      ii. Review and evaluate proposals using a predesigned review instrument
      iii. Make recommendations to Contract Review Committee
   b. Perform other procurement methods, e.g., small purchase procedures, invitation for bids, etc.
2. Tentative Selection of Provider(s) - by Proposal Review Committee
   a. selection of one or more contractors to perform work
   b. determination of other CD funding and other funding based on information supplied by Management Information Systems staff, Office of Housing
3. Pre-Audit by Contract Administration staff and Fiscal staff
   a. Accounting system review
      i. Inquire as to voucher procedures used to obtain source documentation.
      ii. Inspect cash receipts and cash disbursement journals
      iii. Review the general and other ledgers
      iv. Obtain a sample of the financial reports and procedures used to compile the same.
   b. Internal Control Review - ascertain that the agency has clearly defined responsibilities for each position; adequate system of authorization, as well as an adequate division of duties in the accounting function; adequate documentation; protective measures; and, some method of internal verification
   c. Program Capacity Review - survey personnel positions for job descriptions and personnel experience
   d. Finally, follow up on deficiencies, if any.
4. Local Reviews - obtain the following:
   a. Equal Employment Opportunity/Affirmative Action Officer's certification

- a. Environmental Review Officer - City Planning Commission certification
- c. Fiscal Officer's certification

5. Final Recommendation/Director's Decision
   - a. Contract Review Committee Recommendation to Director/Board
   - b. Final Decision by Director or Boards of the respective agencies

6. Administration and Financial Requirements Conference by Contract Administration staff and Fiscal staff

B. Contract Period

1. Contract Administration staff perform checking function throughout term of contract
   - a. Reporting
     - i. Receive cost reimbursement vouchers and process payment
     - ii. Receive production and accompanying narrative
     - iii. Make on-site review of a sample of reimbursement vouchers for supporting documentation and approvals
     - iv. Provide technical assistance when needed
   - b. Review of internal fiscal systems
   - c. Follow up on monitoring and auditing functions
   - d. Initiate corrective action based on reviews and audit functions
   - e. Perform contract close-out procedures

II. Monitoring - Monitoring staff, Office of Housing

- A. Conduct administrative, program, financial, and compliance review of all CD funded contracts across the board
- B. In-depth review of all major delegates twice a year
- C. In-depth review of all subrecipients and sub-subrecipients at least once a year

III. Audit - (Excluding vendors and "for-profit" businesses)

- A. All contracts over $100,000 will require an IPA audit.
- B. All contracts between $50-$10[illegible]00 will require a Finance Department audit. All NACs will be audited by the Finance Department and will have a monitoring review at least once a year.
- C. For all contracts under $50,000.00, the Director of Monitoring will decide whether an audit or review will be conducted by the Finance Department. A minimum of 10% of all contracts will be audited each year.

IV. Staff Development and Training

- A. General overall training coordinated by the Director of Monitoring utilizing in-house staff and outside consultants, i.e., HUD
- B. Technical training in specific areas including, but not limited to, the six areas of concern raised by the U.S. Department of Housing and Urban Development

TO Julia Robinson, Director, Office of Housing

DATE 08/13/86

FROM David W. Brenner, Director, Department of Commerce

SUBJECT STATUS OF PROGRAM INCOME AND DRAWDOWN COMPLIANCE

This is to certify and clarify for you the status of program income and drawdown/disbursement compliance for the Community Development Block Grant (CDBG) subrecipients of the Department of Commerce. The three major CDBG subrecipients are the PHILADELPHIA INDUSTRIAL DEVELOPMENT CORPORATION (PIDC), PHILADELPHIA CITYWIDE DEVELOPMENT CORPORATION (PCDC),and COUNCIL FOR LABOR AND INDUSTRY (CLI).

Programmatic review by this office and the Inspector General's Office of HUD has found CLI to be in substantial compliance with program income and drawdown/disbursement requirements. CLI reduces its monthly invoice to the City by the amount of program income that it has on hand at the beginning of the month. CLI does not request funds prior to actual disbursement needs for its revolving funds.

PIDC has been reviewed for compliance with program income and drawdown/disbursement requirements. In the area of fee income, the City reached an informal agreement with HUD that PIDC did not have to include fee income as a component of its program income in 1983. In May, 1986, HUD reversed their position and required PIDC to include fee income with other program income earned. PIDC commenced the accounting and expenditure of this fee income as a component of program income effective July 1,1986, as instructed by the City. PIDC shall undertake an "independent analytical review" of the fee income for Fiscal Year 1985. This should resolve any questions by HUD of the eligibility of the use of these funds. In addition, PIDC once utilized "Third-Party Escrow" accounts for providing funds to businesses. This practice has ceased and the Independent Public Accountant (IPA) audit for Fiscal year 1985 states that this issue has been "satisfactorily resolved" (See a copy of page 23 Peat Marwick audit, dated December 16, 1985, which is attached). PIDC no longer retains program income but disburses it in accordance with the City's program income guidelines. This issue has been satisfactorily resolved in the 1985 Peat Marwick audit (a copy of page 23 is attached).

PCDC has been reviewed for compliance with program income and drawdown/disbursement requirements and has been found to be in substantial compliance. PCDC no longer retains program income in its revolving fund prior to requesting additional contract funds.

These three agencies have been found to be in substantial compliance with the drawdown/disbursement requirements for their management and revolving funds.

If you have any questions, please contact me or James O'Toole at 686-7307.

/tq

cc: Charles Pizzi
James O'Toole

PEAT MARWICK

REVISED REPORT

PIDC LOCAL DEVELOPMENT CORPORATION

Community Development Block Grant Funds
Urban Development Action
Grant Program Income Funds

Financial Statements and
Reports on Internal Accounting
Control and Compliance

June 30, 1985

(With Audit Report Thereon)

RECEIVED

DEC 1 6 1985

Fiscal Department
Office of Community Development

PIDC-LDC Response

PIDC-LDC agrees that a formalized process involving a preprinted checklist would be useful and has designed one that will use personal computers to track and maintain all necessary documents for a given project. It should be noted that a process involving handwritten verification of documents was in place previously.

(5) Prior-Year Report on Compliance

The following comments noted in the prior-year Report on Compliance have been satisfactorily resolved:

- Retainage of Program Income
- Drawdown of Funds for Construction Projects or Acquisition of Machinery and Equipment
- Third-Party Escrow Arrangement

ATTACHMENT 3

PHDC
PHILADELPHIA HOUSING DEVELOPMENT CORPORATION
1234 Market Street, Philadelphia, Pennsylvania 19107
10th Floor
(215) 448-3000

BOARD OF DIRECTORS

GEORGE R. BURRELL, JR.
PRESIDENT
CLARENCE FARMER
FIRST VICE PRESIDENT
FLOYD ALSTON
SECOND VICE PRESIDENT
LORINA MARSHALL
SECRETARY
CARLO R. GAMBETTA
TREASURER

TONY BRITT
MAJOR GEN. LEO A. BROOKS
HON. JOSEPH E. COLEMAN, ESQ.
RICHARD G. GILMORE
HON. W. WILSON GOODE
WALTER R. LIVINGSTON, JR. A.I.A.
THOMAS McINTOSH
JULIA O. ROBINSON
LIZ ROBINSON
JAMES S. WHITE
JOSEPH L. ZAZYCZNY

CARDELL V. BLUE
EXECUTIVE VICE PRESIDENT

To Whom It May Concern:

I do hereby certify the accuracy of the following statements:

1. *The Philadelphia Housing Development Corporation (PHDC) had immediately ceased the drawing down of CD funds for use in corporate escrow accounts for the private rental rehab program upon receipt of the HUD monitoring letter dated May 29, 1986. This cessation will continue in place as long as PHDC lacks the written authorization from HUD to utilize this cash management procedure.*
2. *The PHDC practice of accepting invoices from the Philadelphia Rehab Plan, Inc. for purposes of establishing construction escrow accounts had also been discontinued in June 1986. This cessation will continue as long as PHDC lacks the written authorization from HUD to utilize this cash management procedure.*
3. *Revised reporting, budgeting and monitoring procedures have been put into place at PHDC which would enable adherence to HUD cash management and program income requirements.*

Cardell V. Blue

Cardell V. Blue
Executive Vice President
Philadelphia Housing
Development Corporation

PROCEDURES TO ASSESS FISCAL YEAR 1986
MAJOR DELEGATE AGENCIES' ACTIVITY

IMMEDIATELY

Review and evaluate management systems. Identify deficiencies, recommend corrective action and assist delegate agency with implementing changes.

Thereafter, each major delegate agency will be required to cure the deficiency(ies) in a timely manner, outlining the specific steps to be taken, expected completion date and follow-up procedures to ensure continuing compliance.

We anticipate completing the system review process within three weeks (minimum management systems attached).

In Continuing our Review and Assessment

In addition to a review of the management control systems, the City of Philadelphia will conduct audits or reviews of all sub-subrecipients, receiving less than $100,000 per year which were not subject to audit, or have not been reviewed during the past fiscal year. This process should be completed within 45 to 60 days, and a summary report will be submitted to HUD.

Currently, the City of Philadelphia, through the Office of Housing, has required an Independent Public Accountant (IPA) audit of all delegate agencies and sub-subrecipients with contracts of $100,000 or an aggregate of $100,000, audit reports are due on or before September 30, 1986, for the fiscal year ended June 30, 1986. After receipt, each audit report will be reviewed for compliance and internal control findings, corrective action will be taken immediately to resolve all findings.

OFFICE OF HOUSING
CDBG PROGRAM/CONTRACT IMPLEMENTATION

SYSTEM/PROCEDURES	OH	PHDC	RDA	Commerce Dept.	PCDC	PIDC	CLI
1. Accounting/Budgeting							
a. Account System							
1. Journals							
2. Ledger(s)							
3. Chart of Accounts (By program Activity, project, obtject)							
4. Reporting format							
5. Documentation							
b. Budgeting							
1. Comparison of projected with actual							
2. Cost allocation method							
3. Program Income procedures							
2. Internal Controls							
a. Person in charge - day to day							
b. Persons assigned/delegated major areas of responsibility							
c. method of transmitting information about CDBG program/activity							
d. System of authorization							
e. Accounting Department							
f. Documentation							
g. Protective measures							
h. Internal verification							
i. Others							
3. Filing System							
4. Program Implementation							
a. Contracts							
b. Schedule of work							
c. Inspections							
d. Monitoring							
e. reporting							
f. close-out							
5. Management Information System (MIS)							
6. Procurement							
7. Personal Property Management							

OFFICE OF HOUSING
CDBG PROGRAM/CONTRACT IMPLEMENTATION

SYSTEM/PROCEDURES (Cont'd)	OH	PHDC	RDA	Commerce Dept.	PLDC	PIDC	CLI
8. Compliance with Requirements							
9. Monitoring of Subrecipients							
10. Staff Development							
11. Contract Administration (or person assigned)							
12. Environmental Review							
13. Resolution of Monitoring and Audit Findings							
14. Sanctions							

ATTACHMENT E

CITY OF PHILADELPHIA
W. WILSON GOODE
MAYOR

August 20, 1986

Kenneth Finlayson
Regional Administrator
U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT
105 South 7th Street
Philadelphia, Pennsylvania 19106

RE: COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM
RELEASE OF FUNDS

Dear Mr. Finlayson:

In response to the conversation which we had on Monday, August 18, 1986, following a meeting between our staffs concerning the City of Philadelphia's Community Development Program, I am enclosing the following:

(a) Program Management Systems Manual.

(b) Schedule of Contracts which have or will expire on or before September 30, 1986.

(c) Office of Housing's Monitoring Schedule for Year XI Contracts.

(d) Review of Active Contracts for compliance with areas of concern raised in U.S. Department of Housing and Urban Development's (HUD) July 10, 1986, letter.

You indicated that items (a), (b), and (c) were the three remaining things needed to complete your review.

REVIEW OF ACTIVE CONTRACTS FOR COMPLIANCE WITH THE AREAS OF CONCERN RAI IN THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S JULY 10th LETTER TO THE CITY

	Major Delegate Agencies	Subrecipients
(1) PROGRAM INCOME	- Uniform Program Income Guidelines have been circulated to all delegate agencies. - Memo was sent 8/14/86 requiring monthly reports from all delegate agencies. - Reporting and reconciliation statements have been required in all IPA Audit Reports for FY 85 and 86 for all delegate agencies.	- Uniform Program Income Guidelines will be circulated to all subrecipients by 9/5/86. - PHDC notified its subrecipients by memo sent 7/11/86 that monthly reports are required.[1] - The City by letter of 8/15/86 instructed PCDC to notify its subrecipients that monthly program income reports will be required from all appropriate subrecipients. - Reporting and reconciliation statements have been required in all IPA Audit Reports for FY 85 and 86 for all subrecipients. - Revise Reimbursement Request for all contracts by 9/5/86.
(2) DRAWDOWN AND DISBURSEMENT REQUIREMENTS	- Letter to all delegate agencies regarding disbursement procedures have been sent on 8/15/86 accompanied by existing Financial Management Guidelines, pending revisions.	- All effected and appropriate subrecipients have been informed and have ceased drawing down funds for escrow accounts pending an appeal by the Ctiy.
(3) DOCUMENTARY EVIDENCE FROM AGENCIES WITH SUBSTANTIAL OR REPEAT CASH MANAGEMENT VIOLATIONS	- OH will review cash management issues and requirements with major delegate agencies by 9/5/86. If any deficiencies remain they will be corrected within 30 days of that date.	- Delegate agencies will have similar meeting with subrecipients, in groups, to be completed by 9/30/86. Agencies with deficiencies will be required to correct them. All deficiencies will be corrected within 60 days for existing contracts. Any agency with gross inadequacy(ies) will not receive additional funds until its cash management procedures are brought into compliance.

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[1] PHDC has the most subrecipient contracts of any major delegate agency.

Kenneth Finlayson
Regional Administrator, U.S. Department
of Housing & Urban Development

August 20, 1986
Page Two

We believe that the enclosed information and the information previously submitted will enable you to remove the prohibitions on contracting as provided in HUD's July 10, 1986, letter and to approve our Year XII grant.

Continuation of the prohibitions imposed by HUD's July 10, 1986 letter and the withholding of the Year XII grant will prevent the City from meeting commitments to low-income families awaiting housing or rehabilitation assistance and to businesses awaiting funds for activities intended to create jobs for low-income persons. The blanket prohibitions which HUD has imposed on contracting precludes our use of prior years funds to continue some of our activities. In addition, withholding our Year XII grant, coupled with the prohibition on contracting with prior years funds, will make it impossible for the City to continue many of its programs. It has become necessary for the City to notify our delegate agencies and instruct them to notify their subrecipients of the potential effect on their operations. For those agencies and activities funded by the CDBG program, this will result in the loss of jobs and the loss of momentum to carry out our Community Development Program.

While the prohibitions imposed by HUD do not terminate existing contracts, without the Year XII grant, some costs associated with administering and monitoring these contracts cannot be paid. If staff is not available to administer the many existing contracts, it will be necessary for agencies under contract with the City and its delegate agencies to cease Community Development Block Grant funded operations.

In view of the City's ongoing efforts to strengthen the management and monitoring systems of the City and our delegate agencies, the improvements specified in my letter to you of August 14, 1986, and the more detailed information provided with this letter, I believe the City has satisfied all the concerns which HUD has raised.

Therefore, we urge that HUD immediately remove the prohibitions imposed by the July 10, 1986, letter and approve the Year XII grant. Your prompt review and response is urgently needed.

Sincerely,

W. Wilson Goode

	Major Delegate Agencies	Subrecipients
(6) PROGRAM MANAGEMENT AND MONITORING	- The City will assess the management systems of all major delegate agencies by 9/8/86 and implement any needed corrective actions. - All contracts under $100,000 which have not been audited or reviewed, will be, by October 27th. In addition, the City will determine the current status of extant findings of those contracts previously reviewed and implement any needed corrective action. - The City will create a data base for all CDBG funded contracts during the month of September to perform the Clearinghouse function. - The City will conduct a Program Management System Orientation for all delegate agency heads and appropriate Program and Fiscal staff during the week of August 25th. - Subject to review and approval by the City, PHDC has implemented a program management system and has conducted orientation sessions with internal staff and subrecipients. - PCDC will be required to conduct a similar orientation session with its subrecipients on a program management system in accord with the City's Program Management System. - The Program Management System has built-in sanctions during the contract period. The City will impose those sanctions when appropriate and require Major Delegate Agencies to also impose sanctions concerning their subrecipients.	- The city will require a Finance Department audit of all contracts between $50,000 - $100,000. All NAC contracts will be audited by the Finance Department and will have a monitoring review at least once a year. - For all contracts under $50,000, the Director of Monitoring will decide whether an audit or review will be conducted by the Finance Department. A minimum of 10% of all contracts will be audited each year.

	Major Delegate Agencies	Subrecipients
(4) ALLOCATION OF COSTS	- All major delegate agencies, with the exception of PCDC, have cost allocation plans, which have been and will continue to be reviewed by IPA's and the City has responded to an outstanding Year IX monitoring finding concerning the RDA.	- No later than 9/5/86, OH will identify all subrecipients that have CDBG Contracts with the City and one or more delegate agencies. - OH will conduct a cost allocation review to determine if the subrecipients have overlapping administrative costs, exceptions will be corrected immediately. - PHDC required cost allocation plans in a seminar held for subrecipients on 7/31/86. Related materials were distributed and explained to subrecipients. - Cost allocation plans will be required for all subrecipients by 9/30/86.
(5) ADMINISTRATIVE COSTS	- The City believes that it is currently in compliance with the 20% limitation set forth in the regulations. - Pursuant to discussions with HUD, the City will assess its responsibility centers and contracts currently charged to general administration to determine which of these, if any, would more appropriately be charged in whole or in part to program delivery or administration. - Each delegate agency will assess its contracts with their respective subrecipients to ascertain which costs should be charged to program delivery or administration. The delegate agency will also assess their internal programs to determine which of these activities should be charged in whole or in part to program delivery or administration.	

YEAR XII ACTIVITIES FOR COMPLIANCE WITH AREAS OF CONCERN RAISED IN THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S JU[illegible] 10th LETTER TO THE CITY OF PHILADELPHIA

Before executing Year XII contracts the City will:

- Design and implement a Standardized Budget Format.
- Design and implement a Standardized Request for Reimbursement Form.
- Evaluate Program Management Systems of all Delegate Agencies and note deficiencies, if any, and implement corrective actions as necessary.
- Require Delegate Agencies to evaluate Program Management Systems of all subrecipients.

In addition, the City will revise and distribute Financial Management Guidelines to all Major Delegate Agencies and Subrecipients by September 30, 1986.

CONTRACTS WITH MAJOR DELEGATE AGENCIES OR SUBRECIPIENTS AND PROGRAM ACTIVITIES THAT EXPIRE BETWEEN JUNE 30, 1986 AND SEPTEMBER 30, 1986

	FUNDS AVAILABLE AT CONTRACT EXPIRATION DATE		ESTIMATED MONTHLY COSTS OR COMMITTMENTS
CONTRACTS OR PROGRAMS EXPIRED JUNE 30, 1986:			
CLI -- Operating Services	0		50,000
PCDC -- Operating Services	39,000		152,000
Architects Workshop	0		29,167
Horticultural Soceity	34,260		30,000
Housing Association of Delaware Valley	0		7,500
Northwest Counseling Services	0		5,000
CLI -- Revolving Loan Fund	0	*	16,833
PCDC -- Revolving Loan Fund	0	*	24,417
PIDC -- Revolving Loan Fund	0	*	374,167
CONTRACTS OR PROGRAMS EXPIRED JULY 31, 1986:			
Neighborhood Development Center	0		16,667
Tenants Action Group	0		7,000
Urban League	0		8,700
CONTRACTS OR PROGRAMS EXPIRING AUGUST 31, 1986:			
Southwest Germantown CDC	1,577		3,725
Home Program	0	*	600,000
Homestart Program	0	*	1,000,000
CONTRACTS OR PROGRAMS EXPIRING SEPTEMBER 30, 1986:			
United Labor Center For Unemployment	537		11,705
PCDC -- Subrecipient Contracts	0	*	50,000
Belmont Improvement Association of Phila.	3,440		3,350
Carroll Park Community Council, Inc.	11,003		3,600
Citizens Congress of Nicetown Org., Inc.	0		4,400
Citizens of Tioga/Nicetown	4,474		3,125
Concerned Citizens of Francisville	3,414		4,200
East Poplar Neighborhood Advisory Council	4,097		3,140
Eastwick Project Area Committee, Inc.	9,616		3,975
Fishtown Civic Association	0		4,350
Grays Ferry Community Council, Inc.	6,307		4,125
Haddington Leadership Organization, Inc.	3,000		4,615
Hunting Park Neighborhood Adv. Committee	336		4,475
Kensington South, Inc.	1,324		3,900
Logan Human Services NAC	3,887		4,250
Ludlow Community Association, Inc.	8,418		3,100
Martin Luther King's Village Com. Assoc.	4,580		3,475
Mill Creek Council, Inc.	0		4,225
Mount Airy/Morton NAC	7,840		4,125

	FUNDS AVAILABLE AT CONTRACT EXPIRATION DATE	ESTIMATED MONTHLY COSTS OR COMMITTMENTS
SEPTEMBER 30, 1986 (Con't.):		
National Temple Non-Profit Corporation	4,356	3,600
New Kensington NAC	0	5,300
Northern Liberties Neighbors Assoc., Inc.	3,156	3,250
Northwest Strawberry Mansion NAC, Inc.	386	3,550
Olde Kensington Redevelopment Corporation	2,939	3,600
Parkside Association of Phila.	5,961	3,725
Pennsport Civic Association	0	4,050
Queen Village NAC	719	4,425
Saint Edwards/Hartranft NAC	4,651	4,100
South Lehigh Action Council, Inc.	9,612	3,275
Southwark Eastern Neighborhood Ent., Inc.	1,613	4,100
Susquehanna NAC	55	4,900
Washington Square West Project Area Com.	3,868	3,700
West Kensington NAC	0	5,550
West Poplar NAC	7,253	4,000
West Strawberry Mansion Citizen Part.	2,893	4,550
Whitman Council, Inc.	248	3,775
Wister Neighborhood Council	3,384	3,475

Contract Funds available are committed for specific Vendor Obligations; therefore, new Vendor Obligations can not be incurred.

ATTACHMENT F

U.S. Department of Housing and Urban Development
Philadelphia Regional Office, Region III
Liberty Square Building
105 South Seventh Street
Philadelphia, Pennsylvania 19106-3392

AUG [illegible] 1986

Honorable W. Wilson Goode
Mayor of the City of Philadelphia
Philadelphia, Pennsylvania 19107

Dear Mayor Goode:

This serves to acknowledge your letters of August 14, 1986 and August 20, 1986, that transmitted materials and outlined your proposals for correcting the problems with the City's Community Development Block Grant program. As you know, these problems stem from the City's lack of the utilization of an overall uniform system regarding contract management that would result in the detection and, most importantly, the application of appropriate sanctions where deficiencies are evidenced. Our preliminary review of the August 20, 1986 material indicates that the process the City is undertaking will, when implemented, address the issues identified in our July 10, 1986 correspondence. However, a number of items require clarification, and more emphasis on the implementation of the management systems to be utilized is necessary. We will soon submit to you our review and analysis and indicate what additional information will be needed.

Based upon the steps the City has taken with respect to addressing our concerns, and in order to minimize any adverse impact on the beneficiaries of the City's program, the Department has no objection to the City proceeding to contract with its delegate agencies and subrecipients under the current grants. We, nonetheless, advise you not to enter into any new contracts, or increase the dollar amounts of any existing contracts, with any agency or subrecipient where documentation indicates that serious deficiencies exist until such deficiencies have been corrected. Such documentation includes, without being limited to, audit reports, internal reviews, and HUD monitoring reports.

Finally, we intend to impose a contract condition limiting the use of funds on the City's Year XII Grant. This condition will be aimed at allowing both the City to fund activities and ensure HUD and the general public that the City is exercising adequate controls over its CDBG resources.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Kenneth J. Finlayson
Regional Administrator

RECEIVED
AUG 22 1986
DIRECTOR OF HOUSING

ATTACHMENT G

U.S. Department of Housing and Urban Development
[illegible]
Liberty Square Building
105 South Seventh Street
Philadelphia, Pennsylvania 19106-3392

SEP 1 8 1986

Honorable W. Wilson Goode
Mayor of Philadelphia
Philadelphia, PA 19107

Dear Mayor Goode:

I am pleased to transmit to you the Fiscal Year 1986 Community Development Block Grant (CDBG) Entitlement Grant for the City of Philadelphia in the amount of $52,065,000. The Program Year for Philadelphia began on July 1, 19

The grant assistance which you are receiving includes $1,000 in funds reallocated from Fiscal Year 1985's appropriation, in addition to your Fiscal Year 1986 entitlement of $52,064,000. Because we are required to account for funds by the fiscal year in which they were appropriated, the reallocated funds have been assigned the grant number established for your 1985 entitlement grant (B-85-MC-42-0012). When requesting funds from the Letter of Credit, you should enter the 1985 grant number on the drawdown documents until the cumulative amount drawn down under that number equals the amount previously approved under that number plus the reallocated funds awarded herein. You may then begin drawing down under the 1986 grant number (B-86-MC-42-0012).

A portion of the 1986 grant funds, in the amount of $1,156,262.59, has been withheld for payment of principal and/or interest on a loan guaranteed pursuant to Section 108 of the Housing and Community Development Act of 1974. Consequently, the amount available for disbursement from the Letter of Credit under the 1986 grant number will be $50,907,737.41.

Enclosed is the Grant Agreement and Funding Approval (HUD-7082) (three copies), which constitutes the contract between the Department of Housing and Urban Development and the City of Philadelphia. You should note particularly the special conditions included in Item 13 of the Funding Approval.

The conditions in Exhibit C are being imposed as a result of the Department's determination, in accordance with 24 CFR 570.909(g), that the City of Philadelphia has failed to carry out its CDBG Program in compliance with the requirements of the Housing and Community Development Act of 1974, as amended, the CDBG regulations, and other applicable laws and regulations. Although the City has the ultimate responsibility, pursuant to 24 CFR 570.204(b), for ensuring that CDBG funds are utilized by subrecipients (including delegate agencies) in accordance with applicable laws and regulations, it has not exercised sufficient oversight of these subrecipients. The City's management systems have been inadequate to ensure that CDBG funds are properly spent and accounted for, and to identify and correct performance deficiencies in a timely manner. As a result, a substantial number of audit and monitoring findings have been identified involving noncompliance with the cost principles of OMB Circulars A-87 and A-122, the financial management standards of OMB Circulars A-102 and A-110, and the program income and cash withdrawal requirements of the CDBG regulations.

The special conditions preclude the obligation or expenditure of $13,000,000 (25 percent) of the Fiscal Year 1986 grant funds until the City establishes and implements on an ongoing basis effective management systems for the control and monitoring of CDBG funds. The amount of the withholding reflects the time we are allowing for the City to correct the problems. The release of 75 percent of the grant at this time should provide the City with sufficient resources to enable it to take the required actions within the time frames specified in the contract conditions. If the actions are taken as indicated, the remaining funds should be released in time to permit the City to address its funding needs without any disruption to subrecipients.

Condition 1 requires the City to submit, within 45 days of the date of this letter, information describing the management systems to be implemented. The specific items required to be submitted are as follows:

a. An organizational chart and narrative which clearly identify the assignment of contract administration and in-depth monitoring functions within each City agency and delegate agency that receives CDBG funds. Delegate agencies, which are considered subrecipients under the CDBG regulations, include the Philadelphia Housing Development Corporation (PHDC), Redevelopment Authority (RA), Housing Authority (PHA), Council for Labor and Industry (CLI), Philadelphia Citywide Development Corporation (PCDC), and Philadelphia Industrial Development Corporation (PIDC).

b. A description of the procedures to be used to coordinate the oversight of subrecipients that have contracts in multiple program areas and/or with more than one agency. These procedures should be sufficient, at a minimum, to address the concerns expressed in our May 2, 1986 and May 29, 1986 monitoring letters regarding such coordination; ensure that information pertaining to the subrecipients' performance is disseminated among the affected agencies and/or contract administrators; and define the responsibilities for resolving deficiencies which cross contract lines. As used in the contract conditions, the term "subrecipients" refers to all entities considered subrecipients under the CDBG regulations except the delegate agencies.

c. A description of the City's monitoring process, or monitoring plan/schedule, addressing the three phases of the monitoring process: pre-contract reviews, ongoing contract administration, and periodic in-depth reviews. The materials submitted by the City on August 14, 1986 and August 20, 1986, address in part these requirements. We have reviewed those materials and will advise the City, under separate cover, of the items which require clarification, expansion, or correction. Please be aware, however, that the City is responsible for full compliance with all terms of the Contract Conditions, regardless of whether they are specifically addressed in any separate correspondence.

The monitoring plan/schedule should discuss the specific responsibilities of each City agency and delegate agency involved in any phase of the monitoring process, and identify specific positions that will be exercising and/or supervising the various monitoring functions. This information should be consistent with the organization chart(s) provided pursuant to Condition 1.a.

The monitoring plan/schedule should delineate the staff responsibilities in each agency for tracking monitoring and audit findings, initiating follow-up actions, and ensuring that findings are fully resolved in a timely manner. A description of the types of sanctions that will be employed in response to performance deficiencies, and the timing and manner of their application, should also be provided. This should clearly indicate whether the City will retain all sanction power or the delegate agencies will be empowered to impose sanctions with respect to their subrecipients. The organizational levels and/or positions with the authority and responsibility for the application of the sanctions should be identified.

A description of the methods that will be used to ensure that program information, including such items as revised regulations, policy decisions, City guidelines, etc., is formally transmitted in a timely manner to all delegate agencies and subrecipients (if affected). This includes identification of the staff responsibilities for such transmission. It also includes identification of the means by which the City will ensure that the information is correctly interpreted, understood, and implemented in carrying out the program.

A description of the procedures that will be used to ensure that the City, delegate agencies, and subrecipients are properly allocating costs to the CDBG Program in accordance with OMB Circulars A-87 and A-122. This includes any definitions, guidelines, or policies established with regard to such allocations and the definitions of allowable costs. The objective should be to ensure that only those costs which are necessary and reasonable for the delivery of CDBG-funded activities, including the allocable share of administrative costs, are charged to the Program.

The methods that will be used to identify, track, and control the level of expenditures for general administrative costs incurred by the City, delegate agencies, and subrecipients should also be described. This should include any definitions, guidelines, or policies established with regard to such costs. The objective should be to ensure and document compliance with the statutory 20 percent limitation on such costs.

Conditions 2, 3, and 4 require the City to provide evidence of the ongoing implementation of the management and monitoring systems following their approval by HUD. Condition 2 concerns the pre-contract phase of the management system, Condition 3 the ongoing contract administration process, and Condition 4 the in-depth review function. The City is expected to be able to document that it is implementing the agreed-upon systems in accordance with the approved schedule. HUD will select a representative sample of reviews, contracts, reimbursement requests, and other supporting documentation, as appropriate, to verify the City's compliance with Conditions 2 and 3. A status report on all in-depth monitoring reviews conducted by the City will be required to verify compliance with Condition 4.

The special condition in your Grant Agreement and Funding Approval concerning the review procedures under Executive Order (E.O.) 12372, Intergovernmental Review of Federal Programs, and HUD's implementing regulations at 24 CFR Part 52 (see the June 24 1983 Federal Register, pages 29206-29221), restricts the obligation or expenditure of funds for the planning or construction of water or sewer facilities until the completion of the review process and receipt of written release of funds from HUD. Since you have not submitted your Final Statement for review under E.O. 12372, we assume you do not propose to use funds for activities subject to review. However, the condition requires that in the event you amend or otherwise revise your Final Statement to use funds for the planning or construction of water or sewer facilities, you must receive written release of funds from HUD before obligating or expending funds for such activities.

The grant amount specified in the enclosed Funding Approval is less than the grant amount covered by the Standard Form 424 and Option C budget in the Final Statement submitted to this Office on July 10, 1986. The Option C budget was based upon the City's estimate of the amount of funding it would receive following enactment of the Urgent Supplemental Appropriations Act, 1986, which included a provision disapproving the deferral of $500 million in CDBG funds. The actual grant amount following such enactment, however, is $146,000 less than the City's estimate.

As a result of this difference, it will be necessary for the City to amend its Final Statement to reflect the correct grant amount. In doing so, you should follow local procedures for amendments unless you intend to make a substantial change in the proposed use of funds. In the event of a substantial change, including but not limited to the deletion of any activities, the following CDBG statutory and regulatory requirements would have to be met before funds could be obligated or expended for the affected activities:

1. Citizens shall be provided with reasonable notice of, and opportunity to comment on, the proposed substantial change in the use of funds;

2. The grantee shall consider any such comments and, if deemed appropriate by the grantee, modify the proposed amended use of funds; and

3. The grantee shall submit to HUD an amendment to the Final Statement describing the changes adopted and shall make the amendment available to the public.

Regardless of whether local or HUD procedures are followed, we ask that you submit the following documents for our records upon completion of the amendment process: a revised Standard Form 424 and supporting supplemental schedule reflecting the correct grant amount ($52,065,000), and a revised Final Statement ("Plan for Year Twelve") incorporating changes where necessary.

A question that is frequently asked is whether public hearings must be held to obtain citizen comments on the use of funds (for substantial changes in the use of funds). While grantees may choose to hold one or more public hearings, such hearings are not required for this purpose. Other means may be used to provide citizens with an opportunity to comment on the proposed use or change in use of the funds.

In order to amend your Letter of Credit to reflect the Fiscal Year 1986 grant, it will be necessary for you to execute and return two copies of the Grant Agreement. Upon receipt of the executed Grant Agreement (two copies), HUD will transmit to you a copy of the Letter of Credit which will reflect your Fiscal Year 1986 grant amount and indicate when drawdowns may commence.

You are reminded that certain activities are subject to the provisions of 24 CFR Part 58 (Environmental Review Procedures for the Community Development Block Grant Program). Funds for such activities may not be obligated or expended unless the release of funds has been approved in writing by HUD. A request for the release of funds must be accompanied by an environmental certification.

Based on our review of your Final Statement, we wish to caution the City that it should closely monitor the expenditure of CDBG funds for planning and general administrative costs during Program Year XII. The Option C budget in the City's Final Statement identifies planning and general administrative costs in an amount equal to 19.1% of the Fiscal Year 1986 grant plus budgeted program income. This percentage is sufficiently high to warrant careful review and tracking of expenditures during Program Year XII to ensure that the 20% statutory limitation is not exceeded.

Among the items which you should consider when monitoring administrative costs are the following:

1. Costs identified by the City as "program" or subrecipient costs which actually represent planning or general administrative costs;
2. Expenditures for planning or general administration during Program Year XII that are paid with prior years' funds which are not included in the Year XII Final Statement;
3. The actual amount of program income received during Program Year XII, which may be less than the amount budgeted in the Final Statement.

If you have any questions or desire assistance in connection with this letter or other items related to the CDBG Program, please contact Ms. Mary E. Krank, Community and Economic Development Representative, at 597-1931.

Sincerely,

Kenneth J. Finlayson
Regional Administrator/Regional
Housing Commissioner

Enclosures

cc:
Ms. Julia O. Robinson

CONFUSION OF COMMUNICATIONS

Senator HEINZ. Ms. Robinson, thank you.

Do you believe that HUD, as your testimony indicates, has never communicated their shortcomings to you or your agency prior to July 10?

Ms. ROBINSON. No, I am not saying that at all, Senator. HUD, for instance, responded this morning or related to a letter of May 2 that they sent to us, which was a result of their annual auditing and monitoring visits.

Senator HEINZ. Is that letter in here, the May 2 letter?

Ms. ROBINSON. The May 2 letter is not in there, but it's referred to in their July 10 letter. In the first part of that letter, they reference the May 2 letter and a May 29 letter.

They raised issues and questions and most of those issues and questions were very legitimate as part of their monitoring visit. We responded to both of those letters in terms of the things that we: One, were doing immediately to correct the questions that they raised; and two, that we were going to put in force to correct those.

One of the issues is, as of today, I have not gotten a response to our communications to HUD as a result of those May 2 and May 29 letters, so I am not sure where we stand in relationship. So they came and monitored, gave us a letter May 2 and May 29. We responded. And the responses, at least one of them, was crossed in the mail with the July 10 letter.

So the first indication that I had that they felt that our system was systemically unsatisfactory was in a meeting that was held about a week or 10 days before the July 10 letter.

Senator HEINZ. Let me ask you this. Do you believe you do have systemic problems?

Ms. ROBINSON. I believe that we have a few problems and I told HUD that when they raised it. One problem that we certainly had was that when we corrected monitoring findings and we corrected issues that we did not look at every single delegate and subrecipient in terms of whether that delegate or subrecipient had the same or similar issue. Absolutely, that was not built in as part of our ongoing system. So that we did not apply that.

Senator HEINZ. So you were good at following up on the specific case-by-case problems that HUD brought to your attention. They mentioned that in 1984 there were 14 specific findings and in 1985 there were 6 specific findings, but they said you corrected those specifics. But what they also said is that they concluded that there was no overall management system for getting control of——

Ms. ROBINSON. I don't agree with that, Senator, because the fact of the matter is, as I also testified, we had put in our own monitoring controls and so that many things that we were looking at, we were, from the point of view of what we were doing because we have a monitoring director who does all of this, he certainly was aware of and looking at them.

I am saying in terms of HUD's findings and conclusions, we were not uniformly looking across all 3,000 of our contracts and saying, "Are these issues effective in all of those contracts."

Senator HEINZ. Let me ask you this. Obviously, you feel that HUD's action of July 10 was unfair. Your implication is that they didn't let you—they had a meeting with you 1 week ahead of time and then bingo, wham, crash, they landed on you.

Ms. ROBINSON. I am saying that——

Senator HEINZ. Now let me ask the question before you answer it. Are you saying that HUD has really not provided clear direction over the years about the city's responsibilities for oversight and financial management?

Ms. ROBINSON. No, I am not saying that at all.

Senator HEINZ. So you believe they have provided clear——

Ms. ROBINSON. We have worked together——

Senator HEINZ. Excuse me. Just to be clear, you are saying HUD has provided clear direction to the city as to the city's responsibilities for oversight and management. You do agree with that?

SURPRISED BY HUD'S ACTION

Ms. ROBINSON. I agree that HUD has, yes, done a very good job of monitoring the city's program and giving us feedback and that was further the reason that I was very surprised in the actions of July 10 because in many of their monitoring letters, in our meetings, in our conversations, they were applauding us for the improvements that were being made in the system. And I'm not here to represent, Senator, that we don't have some problems in our system. I am not here to say that at all.

The system is large and complex. We have continued to make improvement in that system.

Senator HEINZ. I'm sure you have. Let me just ask this, though. In spite of the fact that every city is going to have problems, there's no doubt about that—I asked HUD that question and they said every city has problems—but the problems in the city of Philadelphia are a magnitude worse. I couldn't get them to say whether it was twice, 10, 100, they wouldn't say. They just said it was a magnitude worse. OK. That's what we're left with.

Now I have asked you about your view of HUD's responsibility. Let me ask you if you feel that the city has fully discharged its responsibilities under CDBG regulations? Do you believe that you have fully discharged your responsibilities?

Ms. ROBINSON. When you say fully, Senator, if that means that we are at a point where——

Senator HEINZ. It doesn't mean you're perfect.

Ms. ROBINSON. Well, I was going to say——

Senator HEINZ. I don't know of anybody who's perfect.

Ms. ROBINSON. I feel that we have discharged our responsibilities to the best of our abilities in relationship to the issues that HUD raised, and that we have room and we have needs for continual improvement which we have agreed to make and which we are making.

Senator HEINZ. Do you think you're going to be able to meet as well as make the deadlines and meet all the requirements and timetables that HUD has threatened——

Ms. ROBINSON. Absolutely.

Senator HEINZ [continuing]. Sanctions on if you don't meet?

Ms. ROBINSON. We will meet them, Senator. In fact, many of the things that HUD has raised we have already put into existence and part of what HUD is saying is they want to come and monitor again to make sure these things are workable. But there is no doubt in my mind that we can and we will meet all of the requirements.

Senator HEINZ. Now so far we've just talked about the Community Development Block Grant Program. Do you believe that there are the kinds of problems HUD has found present in any other of the city's Federal housing programs?

Ms. ROBINSON. I certainly do, Senator, and I was encouraged by the fact that you raised the questions that you did because they are some of the same questions that I have raised with HUD. How do we stack up in relationship to other cities on a number of issues that I think ought to be looked at in terms of the review of the program? HUD has asked us to implement a system. I have also asked them to give us some idea of what that system looks like that will be acceptable to them because we are continuing to work with them, but I don't have in any kind of format system that HUD says is an acceptable system to reach for.

So that what I'm doing is I'm continuing to respond and I'm continuing to give them information and have asked for that because I would like to have some self-evaluation. I would like to look at a system that they think is acceptable, that we can work toward, and that we can then evaluate ourselves against that system.

Senator HEINZ. As I understand HUD's basic point, they are saying that while it's not unprecedented for there to be a significant delegation of administration to other independent agencies and subrecipients, on the one hand, Philadelphia has done this to a very major extent; and that given the fact that Philadelphia wasn't very good long before you came along at just monitoring and managing its programs, the net result of the two taken together, in their view, was disastrous, which leads to the following kind of question.

The newspapers and media have been covered with revelations about ICON, as we're both aware. Today, it sounded like, from our last panel of witnesses, that we ought to add the Housing Improvement Program to the same list as ICON. I don't know if that's fair or not, but that's what it sounded like after listening to our witnesses.

Some people said that ICON wasn't just an isolated incident but rather just one, albeit extraordinarily well-publicized incident, of mismanagement, fraud, and malfeasance.

Now are we looking—is ICON just one? Is HIP another? Are there others, or have we only got one, ICON?

Ms. ROBINSON. I would say, Senator, that there's only one ICON. That doesn't mean——

Senator HEINZ. I know that.

Ms. ROBINSON. No, I'm talking about that kind of situation. But I don't want to, again, say to you that there aren't other situations out there where some of the programs or issues need to be resolved, and there is absolutely no way to ensure——

Senator HEINZ. I apologize for kind of speeding along, but those five lights up there on the clock mean I've got about 3 minutes to get to the floor and vote and it's over 300 yards and I'm not as fast as I used to be. Let me just follow up on this one question.

Ms. ROBINSON. Will you be coming back?

Senator HEINZ. Well, yes, I'll be back. You listened to what our witnesses had to say about the Housing Improvement Program and I don't know about you, but as I listened I was very, very concerned because although we all understand that a few sparrows do not a summer make, nonetheless, after probing, it sounded like there was a pattern of problems in the Housing Improvement Program that certainly caused me a good deal of concern.

Do you share my concern? Did you share my concern as you sat there listening to the previous panel?

Ms. ROBINSON. I did not, Senator. I share concern about the specific situations, but if you would just allow me to take a few minutes.

Senator HEINZ. Yes.

Ms. ROBINSON. Mr. Kensill was being very——

Senator HEINZ. I'll have to allow you to take a few minutes.

Ms. ROBINSON. OK. Mr. Kensill, when he said he had very positive experiences, he was talking about the Home Improvement Program because that's the auspices under which he works and does his work.

Senator HEINZ. All right. I'm going to recess for not to exceed 10 minutes, but I must go and vote.

Ms. ROBINSON. Fine.

[Recess.]

Senator HEINZ. The hearing will come to order. I want to apologize once again to our witnesses, particularly Ms. Robinson and Mr. Blue, that I had to go and vote. I made it, but barely.

ICON SITUATION

I had just asked you as to whether or not in your view there were other kinds of problems of a serious nature. You had indicated to me that you thought ICON was really unique, that you didn't anticipate, notwithstanding the kind of melodramatic and even tragic associations that ICON has with the MOVE conflagration, that we were unlikely to find any cases of similar subrecipient problems. Is that right?

Ms. ROBINSON. Senator Heinz, I would like to have you indulge me a minute and let me tell you about the ICON situation, if you will.

Senator HEINZ. Yes.

Ms. ROBINSON. We did not ever have a contract with a group called ICON. We had a contract with what we called the nonprofit consortium which is made up of four groups, three of them very, very substantial Philadelphia nonprofit corporations. One is the Urban League, the Housing Association of Delaware Valley, Opportunities Industrialization Center, and ICON.

Senator HEINZ. Could I just put something in perspective for my benefit?

Ms. ROBINSON. Yes.

Senator HEINZ. HUD indicated that you had six kinds of major subcontracting organizations. Would this count as one or as four?

Ms. ROBINSON. No. What I was saying is that actually PHDC, which is our largest delegate of the five, subcontracted, so that this nonprofit consortium was a subrecipient.

Senator HEINZ. In the same way that HIP is a recipient?

Ms. ROBINSON. No. HIP is a program that operates out of PHDC.

Senator HEINZ. Yes. It's actually a program, not a subgrantee?

Ms. ROBINSON. That's right.

Senator HEINZ. All right.

Ms. ROBINSON. And what happened was, we had concerns. Each one of those four groups was to provide us a specific service under this contract. We had concerns about ICON's ability to manage money and what we did in that contract was we delegated—and it was agreed by all four groups—that one of the groups, the Housing Association of Delaware Valley, would be the fiduciary for the dollars in that contract. And we still do not know about all of the issues surrounding that situation. It was the city, it was not HUD, it was not the media that first uncovered issues related to that entire contract and ICON specifically. We notified all the parties involved. We stopped funds. We gave information to the district attorney's office. The district attorney took records from the ICON headquarters with the assurance to me that we would be allowed to reconstruct what went on in that situation and to date the district attorney's office has refused us those records.

So that the thing about that situation that was absolutely appalling to me is that we informed the district attorney's office; we have been attempting for over a year to get those records to reconstruct books to find out exactly what happened, and we have still been denied that opportunity.

So with that, I would say to you that it was a unique situation. I don't think it's repeated, although I am not going to say to you because I can't be 100 percent sure that there aren't other people out there who have tried to abscond with public money. We have systems in place now and we feel much more comfortable about our ability to know that.

You also raised a question about the testimony of Ms. Mintzer, Mr. Kensill, and Mr. Smith, and one of the things I was starting to say when you left is that the piece of the operation that Mr. Kensill felt was good was the HIP. It operates under the HIP, which is the exact program that Ms. Mintzer and Mr. Smith——

Senator HEINZ. As I understand it, what Mr. Kensill testified to was one of the programs administered by HIP—that was my understanding of his testimony. He said that he has two contracts with PHDC. One of them is emergency heating to low income Philadelphians and the other is weatherization and heating system retrofits. And you're saying the second program is a HIP?

Ms. ROBINSON. No, the first one. The heater hotline program is a program of HIP, the home improvement program.

Senator HEINZ. And the weatherization and heating system retrofit is not?

Ms. ROBINSON. It's another activity.

Senator HEINZ. It is a third?

Ms. ROBINSON. No, no. I am saying that the heater hotline operates under the HIP.

Senator HEINZ. OK. I've got it.

Ms. ROBINSON. So now we have——

Senator HEINZ. What we've got is one program under PHDC which he says is awful, the weatherization and heating system retrofit program; and then in HIP we have two programs, one of which he says is good which is the hotline service, and the other which two of our witnesses said with respect to another kind of program which was home improvements and to make sure that the roof doesn't leak and the plumbing doesn't leak that it was working very badly.

Ms. ROBINSON. All I want to indicate is that the grant program for the activities that were described by Mr. Smith and Ms. Mintzer and the heater hotline all operate out of——

Senator HEINZ. Just so I'm clear, what does the heater hotline do?

Ms. ROBINSON. The heater hotline, we contract with the Institute for Human Development to go out and make emergency repairs on heaters during the winter. So that if heaters malfunction, this is a service that we provide through the Community Development Program. If heaters malfunction, they will go out on call to get the heaters operational if they can become operational.

Senator HEINZ. HIP has subcontracted back to Mr. Kensill.

Ms. ROBINSON. That's right.

NUMEROUS COMPLAINTS

Senator HEINZ. They apparently haven't been as lucky in some of their other subcontract ventures, judging from some of the activities of the so-called home repair specialists who have been around to the cases. Is it possible Mr. Kensill is the exception?

Ms. ROBINSON. No, I don't think so.

Senator HEINZ. Why do you say that? How do you know?

Ms. ROBINSON. Well, I gauge at my level the success of our programs by the number of complaints that come to me in relationship to the size of the program, and I know how many come to me and they're more than just the ones that they indicated so I'm not going to say that they aren't.

The thing that really bothered me about the testimony here today—and I said it to Mr. Smith when you were out—is he testified to the fact that he has known me for a number of years. I would say it's almost 20 years. I have not heard from Mr. Smith about complaints that he had with the Home Improvement Program since about 1982. He did come to the city and say at that time that he felt we were out of compliance legally with the need to use architects and engineers in our work.

We did make those changes and we now require, based on the law, that we use architects and engineers when there's a requirement that we do that.

Senator HEINZ. Is there a requirement in these——

Ms. ROBINSON. There's a local requirement.

Senator HEINZ. Is there a requirement in these kinds of home improvement cases that were documented today that a qualified engineer or architect be used?

Ms. ROBINSON. No, sir, not generally. There is a certain requirement for dollar amount and types of activities. So that when we were giving grants into an improvement—and I think it's $10,000 or $12,000, somewhere in that neighborhood—or if there were structural issues and problems, we do need and we do use architects and engineers in that work. So that while I have had consistent communications of one type or another—not consistent—regular communications with Mr. Smith, have seen him a couple of times because he does serve on another task force with me, he has never raised these issues that he raised here today.

Senator HEINZ. Now Mr. Blue has special responsibility for the HIP do you not, Mr. Blue?

Mr. BLUE. That is correct.

Senator HEINZ. And yet now you work for OHCD?

Mr. BLUE. No, I work for PHDC.

Senator HEINZ. You work for PHDC?

Mr. BLUE. Yes.

Senator HEINZ. Thank you. I'll learn. You work for PHDC, of which HIP is one of the PHDC's programs?

Mr. BLUE. Yes.

Senator HEINZ. Now what do you call the program that Ms. Mintzer was testifying about?

Mr. BLUE. The program that she was testifying about is called the Homeowner Maintenance Emergency Program.

Senator HEINZ. All right. Now how many homes were, as you understand it, serviced under that program in the most recent applicable 12-month period?

ASSISTED 2,700 HOMES

Mr. BLUE. Under that program, 2,700 homes were assisted at the rate of $6,100,000.

Senator HEINZ. Now when you say 2,700 were assisted, that would be just a visit to take a look or it might be doing the work to full satisfactory completion?

Mr. BLUE. To the contrary, the word "assisted" is kind of a housing administrative type lingo.

Senator HEINZ. What does it mean?

Mr. BLUE. It does mean the repairs were made.

Senator HEINZ. But if no substantial repairs were needed, does that count?

Mr. BLUE. No. It's just that any time we use Community Development Block Grant funds to improve a property in any way or a low or moderate income person is assisted in any way, we use the terminology "assisted." But in this case the Home Maintenance Emergency Program is a home repair program and therefore, when I use 2,700 as the quantity, that means that 2,700 homes received repairs of different types and that about approximately $6.1 million went toward repairing those homes.

Senator HEINZ. Now on the 2,700 that you serviced, was that in 1985 probably?

Mr. BLUE. 2,700 over the past fiscal year, yes. It would be 1985 and 1986.

Senator HEINZ. Out of those 2,700, how many complaints did you get?

Mr. BLUE. I don't know the exact number of complaints. I certainly did get some complaints. When you have a program of construction and utilizing contractors, I don't believe it's any different than in the private market in terms of if you've got that much improvement going on you're going to have some contractor complaints. The volume of work that is done in that program is very high. It is a very high demand program. The fact of the matter is, we never have enough dollars for that program because of the number of people who need assistance.

Senator HEINZ. Could you just supply for the record the number of complaints that relate to the period during which you gave me the 2,700? Would you supply that for the record?

Mr. BLUE. Yes, I can supply that, absolutely.

There were 113 complaints received during the period.

Senator HEINZ. Please proceed. You were about to say something.

Mr. BLUE. What I was about to say was that the testimony Ms. Mintzer and Mr. Smith was entirely correct about the type of family that is served. That program does in fact serve 90-percent elderly. He is entirely correct. And judicare, of course, in terms of the services that they offer, complaints, they do get elderly people.

The only point I'm trying to make is not only is their universe that they serve in terms of complaints, it's really the universe of the entire program.

Senator HEINZ. Yes, I understand that.

How do you account for the apparent inability—obviously, contractors make mistakes. Not all contractors are created equal. How do you account for the apparent inability of the agency to follow up on the complaints that have been documented to the committee? It seems hearing it that it would just be impossible to get any followup. Now we can all understand that there's a lapse. I'm not perfect in my followup. I get constituents who come to me at a town meeting and say, "Senator, you didn't answer my letter," and I get about 5,000 or 10,000 letters a week. But rarely do they come up to me a second time and complain and I hold town meetings in virtually every area of the State at least once and usually twice a year. So they have their shot at me, so to speak.

I really find it difficult to understand how repeated pleas for help could go unanswered.

Mr. BLUE. Let me just say for the record, assuming that all those were facts—and at this point I'm certainly not assuming that they aren't true—but that is intolerable. If I know about that, I would not tolerate that.

What is also not clear to me, though, as I listened to the four cases that Ms. Mintzer brought up and certain cases that Mr. Smith brought up, I don't exactly know the years of those cases when they happened.

Senator HEINZ. A couple of them are happening now.

Mr. BLUE. I did hear the term 1980 when Ms. Mintzer was giving a case. She said the OHDC. The programs have been reorganized since 1980. OHDC as an agency is now extinct. That is not PHDC. And she talked about not being able to get anybody to do anything about the problem in 1980. I'm not clear on the other three cases and I'm not clear of the timing and the years of the cases that are being raised now.

But I did recall in part of the testimony at least is that there was a problem in 1980.

Senator HEINZ. I think the problem in that case, client 1, was the problem was created back in the early 1980's and my understanding is they didn't think to contact Judicare until rather later. Is that correct, Ms. Mintzer?

Ms. MINTZER. The 1980 case that I referred to is not one of the four that are there.

Senator HEINZ. All right. The 1980 case is another case. These are all current cases?

Ms. MINTZER. Right.

Senator HEINZ. Well, it seems to me you've got some problems.

Mr. BLUE. It seems to me that clearly if that's happening there's no question that there's a problem.

Senator HEINZ. Because what you've said didn't answer my question.

Mr. BLUE. No, I didn't answer your question, but what I did want to do was try to get straight what the years were.

Senator HEINZ. Well, we now know.

Mr. BLUE. So you've clarified that, but then before I had an opportunity to respond you had another comment, but I would like to respond to what you asked me originally.

Senator HEINZ. Yes, please.

Mr. BLUE. As I pointed out before, that is not something that I in fact would tolerate. I do not know the specifics of this particular case. It did sound like that there had been some contact made within the agency. It sounded as though there was contact made with at least a manager and there was some discussion that went on.

In order to respond as to exactly what the problem was, I really would have to discuss that particular case, get back with that manager, find out precisely what happened, why is this happening, what was the problem, why did this go unheeded.

In terms of complaints——

Senator HEINZ. OK. I understand the process. We all go through it. We're all in the same business. I understand that. You're not running HIP per se. You're at the parent agency. I understand that.

But let me ask you this. How many architects or engineers are employed at HIP?

Mr. BLUE. Are employed at HIP?

Senator HEINZ. Yes. Are there any?

Mr. BLUE. At this time, no, in terms of architects. There were two architects who were also housing inspectors in the HIP.

Senator HEINZ. There were? Are there any now?

Mr. BLUE. There are no architects employed. To the extent that we need architects——

Senator HEINZ. I'm not complaining. I'm just trying to establish some facts.

INVOLVEMENT OF ARCHITECTS

Mr. BLUE. But I think it's important that I make a comment, though. To the extent that we need architects in the Home Improvement Program, we retain those architects through an RFP process. So that if an architect is needed because of cost of the construction or structural problems, the department is responsible to bring in that service and we have them. We go out on RFP every year.

Senator HEINZ. Fair enough. I'm not questioning that.

Mr. BLUE. That's all I wanted to do, just explain where they do get involved with the program.

Senator HEINZ. Very well. How many building inspectors are there in HIP and how many of them, if any, are specifically detailed to the HME program?

Mr. BLUE. There are approximately 20 inspectors in the Home Improvement Program and approximately 15 of them are detailed to the home program.

Senator HEINZ. Exclusively?

Mr. BLUE. Yes.

Senator HEINZ. Is there a minimum level of qualification of those inspectors?

Mr. BLUE. Yes.

Senator HEINZ. What is that?

Mr. BLUE. I wouldn't be able to tell you the exact number of years, but——

Senator HEINZ. Years of what?

Mr. BLUE. Years of experience. They all must either have experience in a particular trade such as plumbing, electrical, having done carpentry, and it depends upon which level of inspector they begin at. There are two levels, a housing inspector 1 and a housing inspector 2. A housing inspector 2 is a senior-type inspector. Normally, that experience that's required there I believe is 4 to 6 years.

Senator HEINZ. Of what? Of being a housing inspector 1?

Mr. BLUE. Of being a housing inspector 1 or having had experience involved in rehab inspections or involved in carpentry or one of the trades, et cetera.

Senator HEINZ. The 2,700 homes that you serviced, were they all inspected?

Mr. BLUE. Yes.

Senator HEINZ. All right. Thank you.

Ms. ROBINSON. Senator, could I follow up on another issue that's part of this complaint? I am appalled at some of the instances or situations that were articulated, if indeed they happened in our system. Ms. Mintzer wrote to the regional office of HUD several weeks ago stating that our program was not good at all. I wrote to her and asked her to submit to me cases that she was concerned about for my followup.

I am committed to the elderly people and low-income people in Philadelphia and to quality service. The first place to start in a quality service is to find out when people have issues or complaints. So that I heard for the first time the issues that were raised so that I can't respond to them because after asking her to submit them to me I have not yet received them.

I would like to follow up on those to give some specific instances, to give some feedback on those, because we are very serious about the service that we provide.

The other thing is that if you're interested we will also supply you with the job description of our housing rehab specialists which was alluded to in the discussion earlier.

Senator HEINZ. Well, I wasn't so interested in the job description. I was interested in the statement of qualifications.

Ms. ROBINSON. Which would have the statement of qualifications is what I was suggesting.

Senator HEINZ. OK. Fine. Let me return, if I may, Ms. Robinson, to your testimony. In your testimony on the first or second page, you elaborated how you had reduced the amount, the percentage, of unresolved cost items.

My question is, you took that as evidence that you've been doing a good job.

Ms. ROBINSON. A better job.

Senator HEINZ. A better job. Did HUD at any time indicate to you prior to their July 3 meeting with you that it wasn't so much a question of the specific incidents involving *x* percent of costs, but that they were concerned about larger patterns of management type issues? Did they ever suggest that to you prior to that?

Ms. ROBINSON. I do not remember that, Senator. They referred to a letter in 1985 which I don't have with me, of course, which I will review when I go back. But, no, I do not remember.

Senator HEINZ. Which 1985 letter?

Ms. ROBINSON. They said that they raised an issue in 1985.

Senator HEINZ. There were two letters they referred to in 1985. One was July 8, 1985 and the other was June 6, 1985.

Ms. ROBINSON. The one that they referred to in relationship to the ICON situation. That was one. I'm aware of that one. The other one, which is where they said they raised some issues that I did not remember is something that I have to review.

So irrespective, if you put that on the side, no, I was not aware that they considered our issues as serious as they have said prior to that meeting that we had early in July.

Senator HEINZ. I gather you're willing to provide the committee with copies of all correspondence between yourself and HUD?

Ms. ROBINSON. Oh, absolutely.

Senator HEINZ. All right. When you've got the specific questions about compliance with HUD or for that matter OMB regulations—and we all know about OMB—for argument's sake, let's suppose you need to know how to classify certain costs as to administrative or program management. You're asking that kind of question. Do you get appropriate responses from HUD?

Ms. ROBINSON. Generally we do. Their staff will come and sit down with my staff and work out those issues.

Senator HEINZ. So generally, the answer is yes?

Ms. ROBINSON. Generally, the answer is yes.

Senator HEINZ. All right. I think you've been extremely generous with your time. You have answered all my questions most fully. You have certainly provided some very hefty testimony and I note that Senator Specter is here and Senator Specter has been over in the Judiciary Committee and, Senator, I think we've just concluded this hearing. We were interrupted by one vote. If you have any questions, I would be happy to submit them for the record as well.

Senator **Specter**. Well, I thank you very much, Mr. Chairman. I regretted that I could not be with you during the hearing.

Senator **Heinz**. All right.

Ms. **Robinson**. I just want to thank the both of you for your interest and continuing interest in assisting us in Philadelphia. You both have been most generous.

Senator **Heinz**. Ms. Robinson, thank you very much. We appreciate your coming down here and we look forward to working with you, HUD, and our constituents to try and resolve these problems. Thank you very much.

Mr. **Blue**. Excuse me, Senator Heinz. One thing that I did not get to do was a chance to read my statement into the record.

Senator **Heinz**. I'm sorry.

Mr. **Blue**. I don't need to read it all.

Senator **Heinz**. I apologize to you. I didn't realize you had testimony.

Mr. **Blue**. Yes. All I wanted to do is make sure that it is entered into the record.

Senator **Heinz**. Without objection, your entire testimony will be a part of the record and I apologize to you, Mr. Blue, for not knowing that you had prepared testimony. I did not know that.

Mr. **Blue**. Thank you.

Senator **Heinz**. Thank you.

[Whereupon, at 12:35 p.m., the hearing was adjourned.]

[The complete prepared statement of Mr. Blue follows:]

PHILADELPHIA HOUSING DEVELOPMENT CORPORATION

Sanctions and Other Corrective Action to be Taken by
the Contract Administrator and Subrecipient

V. Reasons for Suspension of Contracts

Immediate suspension of funds will occur, where appropriate, under the following conditions:

1. Misappropriation of funds
2. Gross non-compliance -- fiscal, legal or programmatic
3. Violation of criminal law
4. Non-payment of taxes
5. Absence of an appropriate accounting system, control mechanisms and fiscal procedures.

It is the responsibility of the contract administrator to alert the Program Director, Executive Vice President, Monitoring Coordinator, Fiscal Director and Legal Counsel in writing when any of the above situations occur. The Executive Vice President must authorize the suspension of funds for the above reasons.

VI. Clearinghouse for Findings

PHDC will establish a monitoring committee which will meet at a minimum of once a month. This committee will permit all relevant parties to review the status of current monitoring problems and audit comments, and to discuss any additional measures or procedures that may be required to enforce compliance with contract and regulatory terms. This process will facilitate an overview of the entire monitoring system with particular emphasis on the timeliness of corrective action taken. The committee will also be responsible for recommending the termination of contracts with repeat offenders and the possible disbarring of contractors who show gross negligence in their performance. The recommendations of the committee shall be forwarded to the Executive Vice President for action.

PHDC Fiscal
8/22/86

PHILADELPHIA HOUSING DEVELOPMENT CORPORATION

Good Morning, Senators:
My name is Cardell Blue. I am Executive Vice President of the Philadelphia Housing Development Corporation. (PHDC)

I. Description of Corporate Entity

The Philadelphia Housing Development Corporation (PHDC) is a non-profit corporation created by the City of Philadelphia. Its chartered and major purpose is to provide homeownership opportunities for low and moderate income families. It also makes available low-cost rental units for tenants who are unable to purchase homes. Housing includes new and rehabilitated single and multi-family units.

Through a contract with the City of Philadelphia's Office of Housing (OH), PHDC receives substantial grants for Community Development Block Grant (CDBG) funds to administer housing activities as designated by the City.

PHDC Programs can be subdivided into three major groups:

a). rehabilitation programs where PHDC contracts directly with a general contractor for the rehab of a home for eventual disposition to a low income family.

b). loan programs where funds are loaned to developers at low interest rates for the purpose of providing rental homes to low income families, and

c). contracts with community based non-profit organizations for the purpose of providing technical assistance and rehabilitating homes for low income families.

For a 12 month period ending May 31, 1986, the Corporation obligated 2,187 for profit construction contracts and 66 non-profit contracts and had expenditures totalling $37,000,000. The monitoring system which is responsible for monitoring the 66 non-profit contracts is the subject of the Department of Housing and Urban Development (HUD)'s recent concerns.

II. Initial Change in the Administration of the City Housing Programs

Before proceeding with the steps that PHDC has taken to improve its contract administration and monitoring system, it is necessary to understand that the improvements have been an evolutionary process that began in 1983.

In 1983, the City re-organized its housing programs and transferred to PHDC the responsibility of administering the programs. Included in this responsibility was, the administration of contracts with community based non-profit organizations for rehabilitation and technical assistance. At that time, staff responsible for the administration and monitoring of these contracts were also transferred to PHDC. The City retained the responsibility for planning and administering the overall Community Development Grant.

Over the course of the first year that these programs were administered, it became apparent to management at PHDC that there were deficiencies in the Contract administration/Monitor System that needed to be corrected. As a result of this review certain steps were taken by PHDC through its own initiative.

III. Original Steps Taken by PHDC in 1983-1985 Re: Contract Monitoring System

In 1983 PHDC created a Contract Review Committee and issued a Contract Review Handbook (copies attached) which created a committee and established procedures for pre-contract review and compliance with federal and local regulations.

In the second half of 1984, PHDC staff began an intensive review which culminated in the issuance in February 1985 of the "PHDC Fiscal Procedure Manual for Non-Profit Subrecipients". This manual, (copy attached) which was written for and distributed to both PHDC staff and the non-profit organizations, specifically addressed the following areas:

1). Financial Controls

    a). Pre-contract review of financial systems of subrecipient

    b). Standard budget functions and contracts required for non-profit contracts.

    c). Requirements for utilization and reporting program

    d). Dcoumentation requirements for payment of non-profit invoices

    e). Administrative requirements for subrecipient organizations.

The manual, along with a series of seminars, with both PHDC staff and non-profit organizations appeared to address the majority of problems encountered in the system at that time.

IV. Subsequent Deficiencies found by HUD in ts Review of PHDC Contract Monitoring System

In March of 1986 HUD representatives reviewed PHDC's Contract Monitoring System and issued a letter dated May 29, 1986 addressing the following areas of concern related to non-profit subrecipients under contract to PHDC.

1. Reporting and utilization of program income.

2. Audit requirement.

3. Billing and documentation of costs.

4. Pre-contract review of financial records.

5. Budgeting of program income.

V. Response to May 29th Letter

Upon receipt of the May 29th letter, PHDC reviewed its systems, revised its documents and took immediate action to implement HUD's concerns.

The City advised HUD of PHDC's actions in its response to the May 29th letter on July 11, 1986.

In addition to the above, the following actions were taken:

1). On July 11, 1986 all PHDC non-profit subrecipients were notified by letter of procedural revisions noted by HUD in the May 29th letter.

2). The PHDC Fiscal Procedures Manual was revised to incorporate these and additional procedures in order to address concerns raised by HUD. These revisions were distributed and explained to all non-profit groups in a seminar on 7/31/86.

3). A re-organization of PHDC departments and staff resulted in the following new positions established within the organization:

  a). Monitoring Coordinator - responsible for on site visits to review financial systems of subrecipients and also training of monitors in performing their function. Also responsible for coordinating responses to HUD concerning federal reviews and concerns.

  b). Creation of Contract Monitoring Unit - All contract monitoring of non-profit subrecipients has been merged into one department. This action will allow for more effective contract monitoring and administration and will facilitate compliance with federal and local regulations.

  c). Hiring of additional Contract Administrators - PHDC is currently completing an interview process aimed at hiring up to five additional Contract Administrators. This will assist in increasing PHDC's contract monitoring capabilities.

  d). Contract Monitoring Committee - PHDC has established a Contract Monitoring Committee. This committee will meet monthly. The committee will review the status of current monitoring problems and audit comments and discuss any additional procedures that may be required to enforce compliance with contract and regulatory terms. Recommendations will be forwarded to the Executive Vice President of the Corporation for action

4). Sanctions Policy for Non-Compliance by Subrecipients - While PHDC had certain sanctions in place since 1985, it was necessary to add additional sanctions to facilitate more effective compliance by subrecipients relative to monitoring reviews performed by HUD, OH, or PHDC staff. There were several revisions to the sanction policy, however, the most significant would be Paragraph V, "Reasons For Suspension of Contracts". These reasons correlate with the reasons as stipulated by letter to HUD from the City as the five areas where immediate suspension of funds would occur (See Sanctions Attachment).

VI. Response to July 10th Letter

As indicated, PHDC had initiated actions in response to HUD's letter of May 29th, therefore, since many of the same concerns as they relate to PHDC were re-emphasized in the July 10th letter, upon receipt of the letter, the changes were underway or about to be implemented shortly thereafter.

I have attached a chart to indicate the status of PHDC activities in the six (6) areas of concern expressed by HUD in their letter of July 10, 1986.

On behalf of the Board of Directors of PHDC, I appreciate the opportunity to appear before your committee. Thank you.

PHILADELPHIA HOUSING DEVELOPMENT CORPORATION
Current Status of and Issues by HUD
in Letter of July 10, 1986

		PHDC	Sub-Recipients (See Note)
(1) PROGRAM INCOME	-	PHDC is required under its new reporting format to provide a monthly accounting of all program income to the City of Philadelphia. This income to be used before additional drawdown request will be submitted to City.	Subrecipients were notified on 7/11/86 that monthly reports requiring program income information was to be provided to PHDC. Immediate utilization of program income is mandatory.
(2) DRAWDOWN AND DISBURSEMENT REQUIREMENTS	-	PHDC has ceased escrowing of funds for the rental rehab program in May 1986, and will continue to comply with this HUD requirement.	Effected subrecipients (PRP) has been notified to cease the drawdown of funds for escrow purposes. No invoices have been paid for escrowing since that date.
3) DOCUMENTATION EVIDENCE For compliance with Federal Cash Management Procedures	-	PHDC is currently undergoing a review by City of Philadelphia Monitoring Unit to prove compliance with HUD and management regulations.	- See Above -
(4) ALLOCATION OF COSTS	-	PHDC has had an established cost allocation system which has been found to comply with all applicable HUD regulations.	Subrecipients were informed on 7/31/86 that a written cost allocation plan is required before contracting with PHDC. On site review by the monitoring coordinator is establishing whether these plans are acceptable or unacceptable for federal funding purposes.
(5) ADMINISTRATIVE COSTS	-	PHDC has initiated a review of its internal cost allocation system to determine if all staff costs are being charge appropriately.	A revised budget form is being proposed for subrecipients which would clearly delineate administrative and non-administrative costs.
(6) PROGRAM MANAGEMENT AND MONITORING	-	PHDC has established specific monitoring procedures as part of its overall Program Management system. These procedures have been completed in written form and submitted to the City of Philadelphia for review.	Orientation sessions with all active subrecipient and also internal PHDC staff have taken place to explain new PHDC procedures and program management system. Revised Fiscal and monitoring procedures have been forwarded to all parties attending these sessions.

Note: Noncompliance with PHDC requirements will result in specific sanctions applied to responsible subrecipient organizations.

PHILADELPHIA HOUSING DEVELOPMENT CORPORATION

Sanctions and Other Corrective Action to be Taken by the Contract Administrator and Subrecipient

I. Audit Findings (IPA Report)

1. A summarization of all audit comments is to be compiled by the fiscal unit within 60 days of receipt of subrecipient audit reports (11/30/86). This report is to be forwarded to the Executive Vice President, Monitoring Coordinator and the relevant program director with the request that proof of required corrective action be compiled by both PHDC internal staff and the subrecipient organization and submitted to the Monitoring Coordinator within 30 days.

2. Failure of a response from the subrecipient will require that all further contract payments be withheld until a response is received.

3. If satisfactory response is received, the contract administrator will be responsible for verifying through the collection of documentation and on site inspection that corrective action taken has been performed satisfactorily. A written memorandum noting this process must be kept in monitor's file and also forwarded to Monitoring Coordinator.

4. If corrective action cannot be taken immediately, the contract administrator must require month-to-month progress reports until corrective action has been taken (setting time limit for compliance).

II. Audit or Other Reports From OH Monitoring, City Controller, City Finance Department and/or HUD

It will be the responsibility of the contract administrator to respond in draft form within a 30 day period to all reports and audit comments noted in reviews performed by the Office of Housing Monitoring Division, City Controller, City Finance Department and/or HUD. This draft would be reviewed by the Program Director, Monitoring Coordinator, Fiscal Director and the Executive Vice President before being forwarded to the appropriate oversight agency. Note that HUD in some cases may require shorter deadlines for response submission.

Concerning corrective action required, the timetables and requirements noted above in Section I will be used to enforce timely response by the subrecipients. Again, failure to meet these deadlines will result in a stoppage of payment processing.

III. Interim Reporting Procedures

Failure to receive a properly completed monthly invoice and production report within 30 days after the end of each month will result in a letter being sent to the subrecipient by the contract monitor immediately request the same within a 7 day period. This invoice must include the appropriate program income information defined in the PHDC Fiscal Procedures Manual to Nonprofit Subrecipients. Failure to submit the report within that time frame will result in a freeze on payment processing for that organiazation for all contracts with PHDC. This procedure will relate to any other reporting requirements determined necessary by PHDC.

In addition, the Office of Housing will be notified of the freeze on payments in order to evaluate whether further action is required for contracts with the subrecipient administered by other city agencies. If the freeze on payment processing still does not result in compliance with the reporting requirements, contract termination would result.

IV. Response to Specific Problems

The Contract Administrator is required to impose one or all of the following sanctions as specific problems arise and are not immediately resolved:

1. Require additional documentation with each request for payment, o

2. Require pre-audit of all requests for payment, or

3. Request current audit of all programs expenditures

4. Limit payments to areas not in question, or areas in compliance with requirements.

5. Suspend all reimbursement requests until compliance is effectuate